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Analysis of Business Trends Plus Selected Financial Indicators

Manufacturers Hanover Economics Department 17/270

Mexico Bounces Back

In early 1980, Mexico's president, Carlos Salinas de Gortari, traveled to several nations in Western Europe in an effort to promote investment in his country. But with the collapse of communism in Eastern Europe, most Western Europeans saw a wealth of investment opportunities closer to home, and President Salinas was given a cool reception. Less than two years later, however, investment in Eastern Europe, hampered by such obstacles as an inadequate infrastructure, the absence of private property laws and an obsolete capital stock, is barely trickling in.

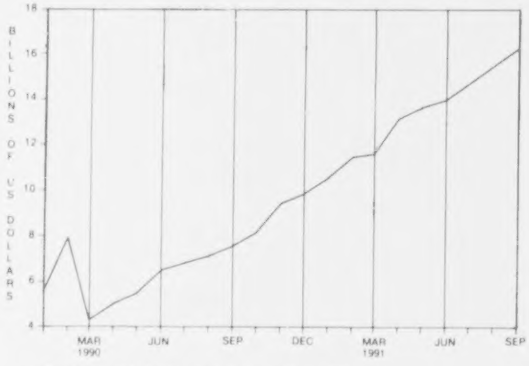
Across the Atlantic, however, lured by President Salinas' economic modernization and liberalization drive and the impressive results of his stabilization program, foreign investment is pouring into Mexico, the stock market is soaring, and flight capital is coming home. What's more, Mexico has regained access to the voluntary lending market, placing more than $1 billion in bonds on international capital markets in the first nine months of this year.

Indeed, the remarkable performance of the Mexican economy and the consequent inflow of private investment prompted Jacques Attali, President of the European Bank for Reconstruction and Development (RBRD) that was recently established to help finance the economic restructuring of Eastern Europe, to point out last month that Mexico is a "striking example for Eastern Europe of how market-oriented structural reforms can attract private capital." On the eve of his recent trip to Moscow, U.S. Secretary of State James Baker stated to the press that the Salinas Administration had introduced in Mexico "the kind of reforms that we hope we see in the Soviet Union and elsewhere." And a few weeks ago, Rudi Dornbush, Professor of Economics at the Massachusetts Institute of Technology (MIT) wrote an article on Mexico for a London newspaper in which he stated that "no other troubled country has done more things right in the past decade and no country shows as spectacular a payoff."

Foreign Investment Soars

Lured by the government's stabilization program and the transformation of the economy by privatization, deregulation and trade liberalization, foreign investment is pouring into Mexico. During the first half of this year, it totaled $3.6 billion compared with $4.6 billion in all of 1990. With all signs pointing to even bigger increases in the coming months, President Salinas' prediction that investment inflows will reach $10 billion this year is not impossible. What's more, due to this inflow of foreign funds, as well as to the return of Mexico's own flight capital, foreign reserves reached $16.3 billion at the end of September, the highest level in the country's history (see chart).

MEXICO'S TOTAL FOREIGN RESERVES (MINUS GOLD)



Sources: International Monetary Fund, MH

To be sure, a major factor that has attracted foreign investment this year is the soon-to-be negotiated free trade agreement between Mexico, the United States and Canada. However, equally important has been the success of President Salinas' policies at home, which has bolstered investor confidence in the Mexican economy. He has slashed public spending, dismantled trade barriers, put hundreds of state-owned enterprises up for sale and liberalized foreign investment regulations. He has also vigorously enforced a strict anti-inflation pact between the government, businesses and labor unions, which has limited wage and price increases and controlled the exchange rate between the peso and the dollar.

Making the control of inflation his chief economic priority, President Salinas slashed the rate of price increases from almost 160 percent in 1987 to about 20 percent in the twelve months to September, and there is a good chance he will achieve his 16 percent target for this year as a whole. But even if the inflation rate comes in at 17-18 percent as most private

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economists believe, it will still be a major improvement from the 30 percent figure posted last year.

Economic Policies Successful

While this year's inflation rate will be the slowest in over a decade, the rate of economic expansion will be the quickest. Paced by a surge in investment, real GDP growth is expected to reach almost five percent this year, up from 3.9 percent in 1990. Impressive also has been the commitment of the government to put its own finances in order. The combination of tax reform, spending cuts and the government's privatization program has reduced the public sector's deficit from a whopping 16 percent of GDP in 1987 to less than four percent last year. This year, in fact, the government recorded a fiscal *surplus* of $3.2 billion in the January-June period.

One unfortunate by-product of the government's economic program, however, has been a sharp deterioration in Mexico's trade and current account balances. The dismantling of import barriers and Mexico's brisk economic growth caused imports to soar by nearly 40 percent in the first six months of this year from a year ago, widening the half-year trade deficit to $4.1 billion from $1.1 billion in the first half of 1990. The trade deficit for the entire year is likely to

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/16/91)	176,172	- 1,744	- 32,083
New York City (10/23/91)	28,916	- 200	- 6,513
Commercial Paper (10/23/91)	527,773	- 1,238	- 30,878

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/16/91)	299,611	+ 1,303	- 18,041
New York City (10/23/91)	52,987	- 1,219	- 4,303

Total Loans and Leases Gross Adjust

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/16/91)	1,013,604	+ 1,695	- 5,103
New York City (10/23/91)	165,129	- 3,834	- 12,384

Financial Markets

	Friday 11/1/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.87%	- .22	- 2.41
180-Day Bills†	4.96	- .27	- 2.42
Longest Bills†	5.01	- .29	- 2.33
Recent Issues:			
6s 10/31/93	5.64	- .28	
6⅞s 10/31/96	6.69	- .27	
7⅞s 8/1/01	7.44	- .22	
8⅛s 8/15/21	7.89	- .14	
Municipals:			
Bond Buyer—20 Bond Index* (10/31/91)	6.69%	- .04	- .60
Blue List Total ($ Million)	$1,427	+ $ 49	+$ 537
30-Day Visible Supply ($ Million)	$4,844	+ $1,818	+$3,779
Total	$6,271	+ $1,867	+$4,316
Corporates:			
Moody's Aa Composite (10/31/91)	8.78%	- .11	- .91
30-Day Visible Supply ($ Million)	$ 550	+ $ 400	- $ 100
Stocks:			
Dow-Jones Averages:			
Industrials	3,056.35	+ 51.43	+565.51
Transportation	1,281.58	+ 36.62	+439.12
Utilities	215.46	+ 1.95	- .46
65 Stocks	1,106.76	+ 21.06	+227.33
N.Y.S.E. Composite Index	216.01	+ 4.19	+ 45.94
N.Y.S.E. Avg. Daily Vol. for Week (000's)	186,721	+ 10,823	+32,255

*34% Taxable equivalent 10.14%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/1/91	Week Ago
Overnight	4.94%	5.19%
1 month	4.94	5.25
3 month	5.00	5.38
6 month	5.06	5.38
1 year	5.13	5.56

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/1/91)	Currency Per U.S. $	Week Ago
Belgium	34.24	35.01
Canada	1.1215	1.1270
France	5.6775	5.8020
Germany	1.6608	1.6993
Italy	1247.00	1270.50
Japan	130.20	131.35
Mexico	3071.80	3069.40
Netherlands	1.8725	1.9155
South Korea	737.96	736.19
Switzerland	1.4615	1.4885
Taiwan	25.99	26.08
U.K.*	1.7490	1.7110

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
MH TRADE-WEIGHTED DOLLAR (11/1/91) (Adjusted for Inflation)	-0.8%	-11.6%

exceed $9 billion—triple the $3 billion shortfall posted last year. As a result, the current account deficit will more than double to almost $12 billion, from $5.3 billion in 1990.

Despite the dramatic widening of the external deficits, a maxi-devaluation of the peso, or even a faster mini-devaluation pace from the current 40 centavos per day is highly unlikely. For one thing, besides bolstering investor confidence, a stable exchange rate has been an important inflation-fighting tool. For another, although the peso has become somewhat overvalued—under the present devaluation schedule, the peso cost of buying dollars increases by less than five percent per year, not enough to compensate for the Mexican-U.S. inflation rate differential of around 15 percentage points—exports are holding up extremely well. Despite the recession in the United States, the market for over 80 percent of Mexico's foreign sales, manufactured exports increased by a hefty 19 percent in the first half of 1991 from a year ago. And finally, with Mexico's foreign reserves likely to exceed $17 billion by yearend, the current account deficit seems quite manageable. All in all, Mexico's economic performance over the past few years has been remarkable, especially for a country whose ability to implement change was doubted by so many only a couple of years ago. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	10/30/91	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	262.571	+ .080	+21.348
Loans to Depository Inst.	.203	- .044	- .227
Float	1.352	+ .825	+ .683
Total Reserve Bank Credit	296.329	+ .953	+11.952
Treasury Deposits with Federal Reserve Banks	5.130	- 1.363	- 1.144
Currency in Circulation	295.474	- .880	+20.941
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	250.267	- .761	+ 9.274
Member Bank Reserves:	10/30/91		
Total Reserves Held	51.361	- .570	- 6.784
Excess (Deficiency)	1.174	+ .149	+ .524
Net Free Reserves	.963	+ .221	+ .684
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (10/21/91)	882.6	+ 8.2	+ 6.7
M2 (10/21/91)	3,406.1	+ 0.7	+ 2.2
M3 (10/21/91)	4,148.1	- 1.0	+ 1.2
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/1/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	4.85%	4.95%	5.01%
* Federal Agencies	4.95	5.00	5.15
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.06	6.06	6.06
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.10	5.20	5.20

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.00%	Dec.	5.00%
15- 29 days	4.95	Jan.	5.10
30- 59 days	4.73	Feb.	5.05
60- 89 days	4.86	Mar.	5.00
90-179 days	4.97	Apr.	5.00
180-239 days	5.00	May	5.00
240-270 days	5.00		

‡ Industrial Paper–Prime			
30- 89 days	4.93%	†Federal Funds	
90-120 days	4.90	Effective Rate	5.00%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'91 n	$ 5,671	$ 5,612	$ 5,515
Gross National Product (1982 Dollars)*	3rd Q'91 n	$ 4,143	$ 4,119	$ 4,170
Percent Change, Annual Rate	3rd Q'91 n	+ 2.4	- 0.5	+ 1.4
Change in Consumer Prices*	Sep '91	4.8%	2.4%	9.6%
Change in MH Cost of Living Index*	Sep '91	3.6%	4.8%	4.8%
Change in Producer Prices*	Sep '91	1.2%	2.4%	15.6%
Civilian Employment (Thousands of Persons) †	Oct '91 n	116,967	117,165	117,733
Unemployment as % of Civilian Labor Force †	Oct '91 n	6.8%	6.7%	5.7%
Personal Income*	Sep '91 n	$ 4,847	$ 4,824	$ 4,698
Leading Indicators Composite Index (1967=100) †	Sep '91 n	145.4	145.5r	143.2
Industrial Production Index (1977=100) †	Sep '91	108.1	108.0	110.6
Net Change in Consumer Installment Credit †	Aug '91	- $ 1.29	- $ 0.63	+$ 1.09
U.S. Merchandise Trade Balance †	Aug '91	- $ 6.76	- $ 5.95	- $ 9.35
Plant and Equipment Expenditures*	4th Q'91	$ 540.9(a)	$ 539.5(a)	$ 529.0
Private Housing Starts (Thousands of Units)*	Sep '91	1,033	1,056	1,106
New Construction Expenditures*	Sep '91 n	$ 406.5	$ 402.1r	$ 437.2
Total Business Inventories †	Aug '91	$ 806.2	$ 806.8	$ 822.7
Total Business Sales †	Aug '91	$ 540.9	$ 541.0	$ 554.2

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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MANUFACTURERS HANOVER

Financial Digest

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Monday, November 18, 1991

Analysis of
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Which Way For The Dollar?

With a seemingly endless string of soft economic statistics dominating the business landscape, inflation rates in check, money supply growth tepid and a Presidential election year just around the corner, expectations abound that the Federal Reserve will continue to loosen monetary policy—driving short-term interest rates even lower while prompting additional near-term downward pressures on the dollar. All of this appears quite reasonable, with the possible exception of the implications for the dollar. For notwithstanding the plethora of well-publicized negatives surrounding the dollar and the lofty level of real interest rates currently underpinning the currencies of the European Exchange Rate Mechanism (ERM), there are some equally good reasons, ranging from a decided improvement in U.S. merchandise trade performance to the likely course of economic developments overseas, to suggest that the dollar's current malaise will not translate into significantly higher trading ranges at least for the European currencies.

The huge turnaround in the U.S. trade balance with Western Europe in recent years lends powerful support to the argument that further dollar depreciation versus the European currencies is unwarranted. Reflecting the combination of robust economic growth throughout Europe in the latter half of the 1980s and the officially-sanctioned policy of dollar depreciation, not only has the once massive U.S. trade deficit with Western Europe been eliminated, but it has been transformed into a large, and growing trade surplus. As shown in the chart, whereas the United States was registering a whopping $27.8 billion trade deficit with Western Europe in 1986—the nadir of U.S. trade woes—during the first eight months of this year the United States was running an annualized trade surplus of more than $17 billion. With the price competitiveness of U.S. manufacturers substantially enhanced, exports to Europe just about doubled between 1985 and 1990, far outpacing the growth of sharply higher priced European imports.

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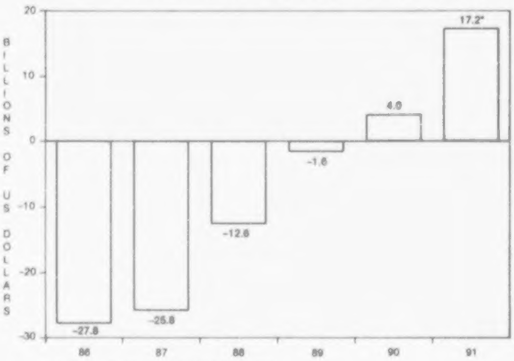
17/270

The widening trade surplus with Western Europe could, however, eventually prompt significant exchange rate friction, just as it did in the mid-1980s when the shoe was on the other foot. While further depreciation of the dollar may be welcomed by U.S. exporters and economy-concerned policymakers alike, such a development will increasingly run into a wall of resistance in Europe. For one thing, European policymakers, many of whom already consider the dollar undervalued, cannot help but be concerned about the health of their own domestic industries in the face of increasingly stiff U.S. competition. For another, suspicions have been heightened that the United States, frustrated at its inability to correct a yawning $40 billion trade deficit with Japan, is attempting to compensate for this policy failure at the expense of the European Community. Since misaligned exchange rates often lie at the heart of hefty trade imbalances, it may not be too long before more vocal calls are heard from across the Atlantic for a higher, rather than a lower-valued dollar.

U.S. MERCHANDISE TRADE BALANCE WITH WESTERN EUROPE



Source: Commerce Department
*Jan.-Aug. 1991 at annual rate

Beware Of U.S. Interest Rate Myopia

To be sure, the perceived "cheapness" of the dollar, and recent U.S.-European trade developments, lend the U.S. currency a fair degree of longer-run support. This does not necessarily mean, however, that a near-term tumble is out of the question, especially when you consider that shorter-term exchange rate movements tend to pivot around international interest rate differentials. And, at first glance, the dollar appears to be at a distinct disadvantage. As long as the U.S. recovery continues to sputter, the likelihood of even lower interest rates is never far removed. But, it would be premature, not to mention myopic, to assume that the dollar will move in lockstep with each downturn in domes-

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tic interest rates. This is because interest rates almost everywhere else are, or will soon be, moving lower as well.

Throughout large chunks of Europe, including France, Italy and the United Kingdom, as well as Japan, business activity either remains lethargic or is slowing to a crawl. Even the once robust German economy appears poised for a decided deceleration, due to a persistently tight monetary policy, higher taxes imposed to rebuild the five eastern provinces and a waning of the post-unification spending boom in those provinces which powered economic growth in the western section. In Germany, consumer and business confidence is declining, retail sales flattening, automobile sales softening and capital spending plans vanishing. In this environment, it is only a matter of time before European monetary policies turn more stimulative and a pan-European lowering of interest rates unfolds.

So, too, a weakening economy and a brightening inflation picture have prompted the Bank of Japan to ease monetary policy. The central bank's discount rate has been cut twice since July and bank reserve requirements have been trimmed, driving short-term interest rates lower. As a result, no longer does the United States find itself the "odd man out" in the ac-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/30/91)	172,745	- 1,884	- 35,760
New York City (11/6/91)	29,078	+ 664	- 6,335
Commercial Paper (11/6/91)	532,293	+ 5,737	- 26,412

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/30/91)	295,576	- 1,057	- 23,882
New York City (11/6/91)	52,775	+ 182	- 5,037

Total Loans and Leases Gross Adjuste

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/30/91)	1,007,291	+ 394	- 13,259
New York City (11/6/91)	165,587	+ 1,262	- 12,993

Financial Markets

	Friday 11/15/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.71%	- .03	- 2.59
180-Day Bills†	4.79	- .07	- 2.57
Longest Bills†	4.88	- .06	- 2.38
Recent Issues:			
6s 10/31/93	5.53	- .08	
6⅞s 10/31/96	6.57	- .08	
7½s 11/1/01	7.34	- .07	
8s 11/15/21	7.84	- .03	
Municipals:			
Bond Buyer—20 Bond Index* (11/14/91)	6.69%	- .02	- .46
Blue List Total ($ Million)	$1,215	- $ 10	+$ 116
30-Day Visible Supply ($ Million)	$3,717	- $777	+$2,678
Total	$4,932	- $787	+$2,794
Corporates:			
Moody's Aa Composite (11/14/91)	8.72%	- .08	- .89
30-Day Visible Supply ($ Million)	$ 275	- $125	- $ 575
Stocks:			
Dow-Jones Averages:			
Industrials	2,943.20	- 102.42	+392.95
Transportation	1,225.53	- 40.17	+361.25
Utilities	215.95	- 2.88	+ 7.70
65 Stocks	1,069.96	- 33.20	+179.22
N.Y.S.E. Composite Index	211.92	- 4.90	+ 38.62
N.Y.S.E. Avg. Daily Vol. for Week (000's)	190,519	+ 13,809	+26,700

*34% Taxable equivalent 10.14%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/15/91	Week Ago
Overnight	4.88%	4.75%
1 month	4.81	4.81
3 month	5.00	4.94
6 month	5.00	4.94
1 year	5.13	5.06

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/15/91)	Currency Per U.S. $	Week Ago
Belgium	33.63	33.91
Canada	1.1310	1.1245
France	5.5820	5.6260
Germany	1.6328	1.6470
Italy	1231.00	1238.00
Japan	129.95	130.20
Mexico	3075.00	3075.00
Netherlands	1.8400	1.8554
South Korea	736.19	738.16
Switzerland	1.4472	1.4548
Taiwan	25.60	25.85
U.K.*	1.7717	1.7640

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (11/15/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.1%	-11.8%

tual, or anticipated thrust of monetary policy and the direction of interest rates, diminishing the relative luster of both the Deutschemark and yen. In fact, investors may find themselves turning increasingly ambivalent toward the U.S., German and Japanese currencies, potentially locking them into narrow trading ranges for quite some time.

Setting The Stage For A Rebound

Nonetheless, whereas the anticipated convergence of growth rates and monetary policies among the major industrial countries is now serving to dampen volatility, the opposite may be the case next year. With interest rates standing lower for longer in the United States than elsewhere, today's admittedly modest economic upswing could gather momentum in 1992, outdistancing growth rates abroad. If so, monetary policies and interest rates would begin to diverge as well, setting the stage for enhanced market volatility. Since quicker U.S. growth will be accompanied by a firming of interest rates here, the compression of international interest rate differentials could produce an across-the-board dollar upswing in 1992. And, if the United States manages to hang on to a healthy portion of its recent trade balance gains, the dollar's rebound might be not only well-rooted, but sizable as well.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/13/91	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	269.466	+ 1.910	+23.598
Loans to Depository Inst.	.105	- .017	- .183
Float	.517	- .283	+ .004
Total Reserve Bank Credit	302.372	+ 1.952	+14.945
Treasury Deposits with Federal Reserve Banks	5.832	- 2.077	+ .362
Currency in Circulation	299.051	+ 2.123	+21.370
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	250.521	- .693	+ 9.079
Member Bank Reserves:	11/13/91		
Total Reserves Held	52.832	+ 1.454	- 7.270
Excess (Deficiency)	.917	- .273	- .065
Net Free Reserves	.805	- .174	+ .080
		‡ % Change Since 3 Months Ago*	Year Ago
Monetary Aggregates †			
M1 (11/4/91)	884.0	+ 8.6	+ 7.4
M2 (11/4/91)	3,402.5	+ 1.6	+ 2.5
M3 (11/4/91)	4,141.8	- 0.3	+ 1.2
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/15/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	4.74%	4.83%	4.91%
* Federal Agencies	4.83	4.88	5.00
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.06	6.06	6.44
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.02	5.00	5.05

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	4.88%	Dec.	4.80%
15- 29 days	4.88	Jan.	5.00
30- 59 days	4.92	Feb.	4.86
60- 89 days	5.00	Mar.	4.84
90-179 days	5.00	Apr.	4.80
180-239 days	5.00	May	4.78
240-270 days	5.00		

‡ Industrial Paper–Prime			
30- 89 days	4.93%	†Federal Funds	
90-120 days	4.90	Effective Rate	4.88%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'91	$ 5,671	$ 5,612	$ 5,515
Gross National Product (1982 Dollars)*	3rd Q'91	$ 4,143	$ 4,119	$ 4,170
Percent Change, Annual Rate	3rd Q'91	+ 2.4	- 0.5	+ 1.4
Change in Consumer Prices*	Oct '91 n	1.2%	4.8%	7.2%
Change in MH Cost of Living Index*	Oct '91 n	1.2%	3.6%	3.6%
Change in Producer Prices*	Oct '91 n	8.4%	1.2%	14.4%
Civilian Employment (Thousands of Persons) †	Oct '91	116,967	117,165	117,733
Unemployment as % of Civilian Labor Force †	Oct '91	6.8%	6.7%	5.7%
Personal Income*	Sep '91	$ 4,847	$ 4,824	$ 4,698
Leading Indicators Composite Index (1967=100) †	Sep '91	145.4	145.5	143.2
Industrial Production Index (1977=100) †	Oct '91 n	108.2	108.2r	109.9
Net Change in Consumer Installment Credit †	Sep '91 n	- $ 1.54	- $ 0.85r	+$ 1.70
U.S. Merchandise Trade Balance †	Aug '91	- $ 6.76	- $ 5.95	- $ 9.35
Plant and Equipment Expenditures*	4th Q'91	$ 540.9(a)	$ 539.5(a)	$ 529.0
Private Housing Starts (Thousands of Units)*	Sep '91	1,033	1,056	1,106
New Construction Expenditures*	Sep '91	$ 406.5	$ 402.1	$ 437.2
Total Business Inventories †	Sep '91 n	$ 811.7	$ 806.6r	$ 826.0r
Total Business Sales †	Sep '91 n	$ 542.0	$ 539.6r	$ 549.8r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial Digest

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MANUFACTURERS
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Financial
Digest

Volume XXVIII, Number 24

Monday, December 2, 1991

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Manufacturers
Hanover
Economics
Department
17/270

Bond Market Blues

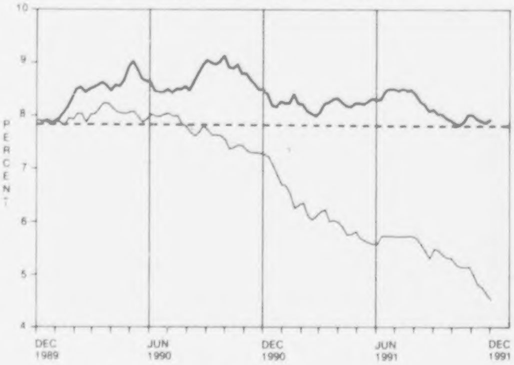
With today's ailing economy in urgent need of resuscitation, policymakers and analysts alike are scrambling to find an appropriate remedy. So far, however, the search has proven elusive. Although the Federal Reserve has already cut short-term interest rates in half over the past two years and the Federal government is running ever-larger budget deficits, neither monetary nor fiscal policy actions have been able to jump-start the economy. Nevertheless, increasing attention is being focused upon the potential benefits of tax cuts, although concerns abound that additional fiscal stimulus will unsettle the bond markets and drive long-term interest rates higher.

These concerns are exaggerated. For while cutting taxes will provide a measure of longer-term relief from the business blahs, the potential benefits of doing nothing in the hope that long-term yields will edge lower are problematic at best. Not only are there several reasons which have little to do with Washington that are keeping long-term rates stuck at current levels, but the presumed benefits arising from lower long-term yields might well skip the private sector entirely.

To be sure, longer-term borrowing costs do seem unusually high, especially when you consider the substantial tumble in short-term rates that has occurred, and the improving inflation picture. As shown in the chart, whereas three-month Treasury bill rates have dropped from better than eight percent in early 1990 to around 4½ percent today—a reflection of repeated Federal Reserve actions to drive short-term interest rates lower—this decline has not been mirrored by long-term rates. As a result, the spread between long- and short-term borrowing costs is now nearly 3½ percentage points. This is one of the largest gaps in the postwar era in absolute terms and, when scaled by the level of interest rates, the widest divergence since the early 1970s.

Long-term yields have also marched to the tune of a different drummer when compared with the rate of inflation. While eight percent, long-term Treasury bond yields appeared reasonable in late 1989, when the rate of rise in consumer prices stood not far from five percent, they seem unduly high when compared with a rate of consumer price inflation barely running at a two percent annualized clip so far this year. Indeed, the growing gap between long-term and short-term interest rates, and inflation rates, is believed to reflect almost exclusively the likelihood that Washington will soon adopt additional fiscal stimulus.

30-YEAR TREASURY BOND YIELD (THICK)
VS. 3-MONTH TREASURY BILL YIELD (THIN)



Sources: Federal Reserve; MH

The Washington Obsession

But there is more to this story. While no one can deny that the Federal budget deficit is ballooning—leapfrogging from $220 billion in fiscal 1990 to an expected $350 billion in the current fiscal year—and that the staggering river of new Treasury debt offerings needed to finance deficits of this size does pose an obstacle to lower rates, so, too, do recent actions of both corporate America and foreign investors. These have been largely overlooked as a result of the Washington obsession of the bond markets.

Take for example, corporate America, which has been actively engaged in refinancing short-term debt in the longer-term markets. While commercial and industrial loans outstanding have contracted over the past year and the volume of nonfinancial company commercial paper placements has skidded, corporate bond offerings have surged. During the first half of this year alone, long-term debt issues totaled nearly $44 billion, just about matching the full

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year 1990 total. Unfortunately, at the same time that corporate America was returning to the bond market, foreign investors were exiting. Japanese investors, for example, sharply scaled back their purchases of U.S. dollar-denominated bonds during this past summer as interest rate differentials between U.S. and Japanese securities narrowed. What is more, the transformation of Germany from a net capital exporter to a net capital importer has heightened fears of an emerging global capital shortage, hardly the ingredients for a sustained drop in long-term interest rates, almost regardless of Federal government actions.

Faulty Conventional Wisdom?

Not only is Washington's degree of responsibility for prevailing yield levels arguable, so, too, are the likely benefits to the economy even if they were lower. Although it has become axiomatic on Wall Street that today's bond yields are hobbling the recovery—by pinching such interest rate sensitive sectors as capital spending and housing—the conventional wisdom may be faulty. Throughout a good part of the 1980s, robust capital spending was undeterred by periodic bouts of bond market instability and updrafts in long-term Treasury yields. For

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/13/91)	171,062	- 1,855	- 35,942
New York City (11/13/91)	28,290	- 788	- 6,954
Commercial Paper (11/13/91)	531,436	- 857	- 22,985

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/13/91)	295,582	- 738	- 23,062
New York City (11/13/91)	52,966	+ 329	- 5,086

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/13/91)	1,010,244	+ 1,618	- 9,843
New York City (11/13/91)	168,171	+ 2,742	- 11,170

Financial Markets

	Wednesday 11/27/91	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.48%	- .12	- 2.74
180-Day Bills†	4.60	- .12	- 2.74
Longest Bills†	4.72	- .09	- 2.57
Recent Issues:			
5½s 11/30/93 (When Issued)	5.43	NA	
6½s 11/30/96 (When Issued)	6.53	NA	
7½s 11/1/01	7.41	+ .04	
8s 11/15/21	7.97	+ .06	
Municipals:			
Bond Buyer—20 Bond index* (11/27/91)	6.78%	+ .09	- .30
Blue List Total ($ Million)	$1,739	+ $ 234	+$ 458
30-Day Visible Supply ($ Million)	$2,927	- $2,455	+$ 741
Total	$4,666	- $2,221	+$1,199
Corporates:			
Moody's Aa Composite (11/26/91)	8.79%	+ .01	- .73
30-Day Visible Supply ($ Million)	$ 990	- $ 112	+$ 440
Stocks:			
Dow-Jones Averages:			
Industrials	2,900.04	- 29.97	+340.39
Transportation	1,174.14	- 28.59	+321.14
Utilities	219.08	+ 5.26	+ 6.99
65 Stocks	1,050.66	- 9.37	+157.73
N.Y.S.E. Composite Index	208.22	- 1.21	+ 32.16
N.Y.S.E. Avg. Daily Vol. for Week (000's)	182,566	- 28,506	+30,734

*34% Taxable equivalent 10.27%

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Wednesday 11/27/91	Week Ago
Overnight	4.88%	4.75%
1 month	4.69	4.75
3 month	4.88	4.88
6 month	4.81	4.88
1 year	4.94	5.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/27/91)	Currency Per U.S. $	Week Ago
Belgium	33.29	33.01
Canada	1.1366	1.1362
France	5.5210	5.4745
Germany	1.6167	1.6030
Italy	1218.80	1210.80
Japan	130.15	129.75
Mexico	3074.70	3088.00
Netherlands	1.8215	1.8065
South Korea	739.93	733.65
Switzerland	1.4285	1.4225
Taiwan	25.50	25.67
U.K.*	1.7678	1.7935

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (11/27/91) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/8
	+0.1%	-11.8

one thing, 30-year maturities are almost exclusively the preserve of the Treasury; few private entities issue such long-dated maturities. For another, the tax codes were more favorably disposed toward investment spending, and not only toward commercial real estate which was flattened by the 1986 Tax Act. Even the housing sector may not be as big a beneficiary of lower long-term rates as commonly assumed. More than one quarter of all new mortgage originations are at variable rates, the interest costs of which are tied to short- and medium-term rates, rather than long-term rates.

Indeed, postponing remedial fiscal policy actions, whether stepped up spending or cutting taxes, in an effort to appease the bond market bears allows the Wall Street tail to wag the Main Street dog. And, while the reasons for today's lofty long-term interest rates may extend well beyond the bond markets' Washington preoccupation, the tonic for the currently ailing economy does not. Putting the economy back on the growth track is going to take a lot more decisive action than sitting on the sidelines, awaiting a drop of a few, or even a few dozen basis points from Treasury bond yields.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/20/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	268.605	- .861	+15.075
Loans to Depository Inst.	.106	+ .001	- .072
Float	.638	+ .136	+ .213
Total Reserve Bank Credit	299.791	- 2.559	+11.872
Treasury Deposits with Federal Reserve Banks	5.596	- .236	+ .221
Currency in Circulation	299.308	+ .257	+20.403
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	256.282	+ 5.761	+14.326
Member Bank Reserves:	**11/13/91**		
Total Reserves Held	52.817	+ 1.457	- 7.285
Excess (Deficiency)	.914	- .259	- .068
Net Free Reserves	.802	- .160	+ .077

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (11/11/91)	884.9	+ 9.3	+ 7.6
M2 (11/11/91)	3,406.8	+ 1.9	+ 2.5
M3 (11/11/91)	4,151.8	+ 0.2	+ 1.1
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted

* Seasonally adjusted annual rate
‡ Four-week moving average

New York Money Market

Offering Rates 11/27/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	4.49%	4.60%	4.72%
* Federal Agencies	4.57	4.61	4.72
* Municipal Notes–High Grade (34% Taxable Equivalent)	5.87	6.06	6.21
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	4.81	4.76	4.95

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	4.77%	Dec.	4.79%
15- 29 days	4.75	Jan.	4.90
30- 59 days	4.81	Feb.	4.80
60- 89 days	5.00	Mar.	4.75
90-179 days	4.95	Apr.	4.70
180-239 days	4.95	May	4.68
240-270 days	4.95		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	4.89%		
90-120 days	4.93	Effective Rate	4.00%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'91	$ 5,671	$ 5,612	$ 5,515
Gross National Product (1982 Dollars)*	3rd Q'91	$ 4,143	$ 4,119	$ 4,170
Percent Change, Annual Rate	3rd Q'91	+ 2.4	- 0.5	+ 1.4
Change in Consumer Prices*	Oct '91	1.2%	4.8%	7.2%
Change in MH Cost of Living Index*	Oct '91	1.2%	3.6%	3.6%
Change in Producer Prices*	Oct '91	8.4%	1.2%	14.4%
Civilian Employment (Thousands of Persons) †	Oct '91	116,967	117,165	117,733
Unemployment as % of Civilian Labor Force †	Oct '91	6.8%	6.7%	5.7%
Personal Income*	Oct '91 n	$ 4,857	$ 4,847 r	$ 4,696
Leading Indicators Composite Index (1967=100) †	Sep '91	145.4	145.5	143.2
Industrial Production Index (1977=100) †	Oct '91	108.2	108.2	109.9
Net Change in Consumer Installment Credit †	Sep '91	- $ 1.54	- $ 0.85	+ $ 1.70
U.S. Merchandise Trade Balance †	Sep '91 n	- $ 6.79	- $ 6.53 r	- $ 9.08
Plant and Equipment Expenditures*	4th Q'91	$ 540.9 (a)	$ 539.5 (a)	$ 529.0
Private Housing Starts (Thousands of Units)*	Oct '91 n	1,096	1,021 r	1,026
New Construction Expenditures*	Sep '91	$ 406.5	$ 402.1	$ 437.2
Total Business Inventories †	Sep '91	$ 811.7	$ 806.6	$ 826.0
Total Business Sales †	Sep '91	$ 542.0	$ 539.6	$ 549.8

*Seasonally adjusted annual rate † Seasonally adjusted n-Newly reported figure r-Revised a-Anticipated

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Financial Digest

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MANUFACTURERS HANOVER
Financial Digest
Volume XXVIII, Number 25
Monday, December 16, 1991
Analysis of Business Trends Plus Selected Financial Indicators

European Economic Growth Slows Sharply

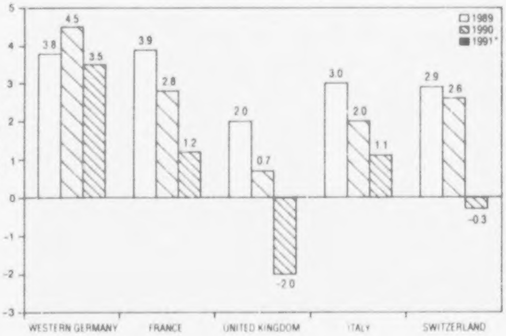
Preparations for the single European market in 1992 sparked a surge in investment during the late 1980s, resulting in robust economic growth for most of the Western European economies at the end of the last decade. However, with 1992 less than a month away, investment in many of these countries is plunging, joblessness is rising rapidly and consumers aren't spending. As a result, European growth has slowed substantially this year, while several countries, including the United Kingdom, Switzerland and Sweden are mired in recession. Shrinking tax revenues and increased unemployment-related outlays, in turn, are straining government finances, causing budget deficits in most countries to widen again after several years of improvement.

Although some of the economic slowdown can be attributed to the effects of the Persian Gulf War, a much greater factor has been the sharp tightening of monetary policy by most European central banks at the end of the 1980s. The monetary authorities in the United Kingdom and Switzerland were forced to aggressively hike interest rates in order to curb rapidly accelerating inflation rates following excessively expansionary monetary policies after the global stock market crash in 1987. At the same time, central banks in such countries as Italy, Spain and Portugal imposed a tight monetary stance in order to converge their inflation rates with those of the lower inflation rate countries belonging to the European Monetary System (EMS) in preparation for economic and monetary union in the European Community.

Manufacturers Hanover Economics Department 17/270

With the uncertainty that surrounded the Gulf War over, oil prices lower and inflation rates on a downward trend in most countries, however, interest rates were supposed to come down throughout Europe during the second half of this year, sparking an economic recovery by late 1991. But this hasn't happened. Interest rates have stayed high and in some countries have actually risen, causing economic growth to slow even further. As a result, economists are adjusting downward their economic growth projections for both this year and 1992. Western Europe's real GDP is now expected to expand by barely one percent this year, compared with earlier estimates of around 1½ percent and real rates of growth of 2.8 percent last year and 3.3 percent in 1989.

REAL GDP GROWTH IN SELECTED COUNTRIES
(ANNUAL PERCENT CHANGES)



*Estimates
Sources: IFS; MH

Bundesbank Keeps Interest Rates High

What went wrong? The main factor that has delayed economic recovery in Europe this year has been the Bundesbank's extremely restrictive monetary policy, which, in turn, has forced other European central banks to keep their interest rates high in order to defend the value of their currencies against the Deutschemark. Determined to prevent the rising costs of German unification and hefty wage settlements from fueling inflation, the Bundesbank has maintained an extremely tight monetary stance over the past year. Indeed, with money supply growth approaching the top of the central bank's three to five percent target range and the inflation rate currently at an unacceptably high 4.2 percent and expected to reach five percent by the middle of next year, the Bundesbank has repeatedly insisted that it has no scope to cut interest rates, at least in the short term. In fact, another round of monetary tightening over the next few months is more likely than not, especially if pay increases above six percent continue to be awarded.

And things could get worse before they get better. This year at least, the dampening effect of high interest rates on European economic growth has been partially offset by the stimulative effect of surging German demand for im-

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ports from the rest of Europe. But, this may end soon. The Bundesbank's severe monetary squeeze—combined with tax increases implemented in July—has already taken a toll on German economic growth, and the economy is expected to slow even further next year. While most economists are expecting a western-German economic growth rate of around two percent next year (down from 3½ percent in 1991), fears are beginning to mount that if excessive wage settlements prompt another round of Bundesbank tightening, the economy could slip into recession in 1992. But even if economic growth remains positive, the sharp slowdown will cut import demand substantially, removing a major stimulus for European economic growth.

Stalled U.S. Recovery Strengthens Mark

The Bundesbank's tight monetary stance is not the only thing keeping European interest rates high this year, however. The stalled economic recovery in the United States is also partially to blame. This is because doubts about the U.S. recovery have prompted international investors to sell dollars and buy German marks in the foreign exchange markets. Increased demand for marks, in turn, has created strains within the EMS, causing the other member currencies to weaken against the mark. Even without Bundesbank tightening, the central banks of France

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/27/91)	171,103	+ 304	- 34,946
New York City (12/4/91)	29,929	+ 703	- 5,360
Commercial Paper (12/4/91)	532,046	+ 2,222	- 26,606

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/27/91)	294,527	- 717	- 22,946
New York City (12/4/91)	52,672	- 629	- 5,644

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/27/91)	1,008,224	- 1,769	- 9,469
New York City (12/4/91)	167,801	+ 384	- 11,183

Financial Markets

	Friday 12/13/91	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.24%	- .09	- 2.81
180-Day Bills†	4.31	- .06	- 2.76
Longest Bills†	4.42	- .08	- 2.66
Recent Issues:			
5½s 11/30/93	5.07	- .12	
6½s 11/30/96	6.29	- .01	
7½s 11/1/01	7.22	- .04	
8s 11/15/21	7.80	+ .02	
Municipals:			
Bond Buyer—20 Bond Index* (12/13/91)	6.71%	- .09	- .34
Blue List Total ($ Million)	$1,522	- $ 170	+$ 379
30-Day Visible Supply ($ Million)	$2,638	- $2,014	+$1,174
Total	$4,160	- $2,184	+$1,553
Corporates:			
Moody's Aa Composite (12/13/91)	8.65%	- .08	- .67
30-Day Visible Supply ($ Million)	$ 700	+ $ 450	+$ 400
Stocks:			
Dow-Jones Averages:			
Industrials	2,914.36	+ 27.96	+320.54
Transportation	1,218.80	+ 20.18	+315.68
Utilities	217.70	- 3.44	+ 9.13
65 Stocks	1,063.63	+ 8.22	+153.63
N.Y.S.E. Composite Index	211.90	+ 2.16	+ 35.19
N.Y.S.E. Avg. Daily Vol. for Week (000's)	192,078	+ 6,994	+34,360

*34% Taxable equivalent 10.17%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/13/91	Week Ago
Overnight	4.44%	4.56%
1 month	4.75	5.00
3 month	4.44	4.63
6 month	4.44	4.63
1 year	4.50	4.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/13/91)	Currency Per U.S. $	Week Ago
Belgium	32.74	32.46
Canada	1.1430	1.1388
France	5.4350	5.3845
Germany	1.5908	1.5740
Italy	1199.00	1191.50
Japan	129.05	128.35
Mexico	3059.00	3091.20
Netherlands	1.7920	1.7755
South Korea	745.25	740.92
Switzerland	1.4035	1.3935
Taiwan	25.47	25.46
U.K.*	1.8145	1.8091

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (12/13/91) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/
	-0.2%	-12.4

and Italy were forced to raise domestic interest rates last month in order to maintain the value of their currencies versus the mark.

At the same time, the Soviet Union's severe economic problems are having repercussions on interest rates in the Scandinavian countries. Because a large part of Finland's trade was with the Soviet Republics, their economic collapse sparked a currency outflow from Finland last month, driving up interest rates and prompting the government to devalue the markka. This, in turn, triggered an outflow of currency from Sweden, causing the central bank to raise its key interest rate by six full percentage points this month in an effort to defend the krona. Market nervousness has also spread to Norway, placing upward pressure on Norwegian interest rates at the moment.

So with interest rates on an upward trend in much of the continent, Western Europe will likely continue to struggle with slowing economic growth, rising unemployment and widening budget deficits, at least through the first half of next year. This, combined with delayed economic recovery in the United States and Canada and a more rapid than expected economic slowdown in Japan, spells some difficult times ahead for the entire industrial world. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 12/11/91	$ Change Since Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	275.75	+ 2.324	+27.062
Loans to Depository Inst.	.138	+ .058	+ .015
Float	.802	- .418	+ .310
Total Reserve Bank Credit	309.281	+ 2.382	+20.236
Treasury Deposits with Federal Reserve Banks	5.191	- .730	+ 1.043
Currency in Circulation	303.296	+ 1.102	+22.144
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	258.859	- .255	+ 8.368
Member Bank Reserves:	**12/11/91**		
Total Reserves Held	54.445	+ 1.480	- 5.615
Excess (Deficiency)	.562	- .359	+ .001
Net Free Reserves	.454	- .366	- .002
		‡ % Change Since	
Monetary Aggregates †		**3 Months Ago***	**Year Ago**
M1 (12/2/91)	901.9	+ 11.8	+ 8.3
M2 (12/2/91)	3,414.9	+ 2.3	+ 2.5
M3 (12/2/91)	4,156.3	+ 1.0	+ 1.0
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/13/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	4.15%	4.15%	4.21%
* Federal Agencies	4.57	4.61	4.72
* Municipal Notes–High Grade (34% Taxable Equivalent)	5.30	5.60	6.06
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	4.55	4.45	4.50

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	4.25%	Jan.	4.80%
15- 29 days	4.74	Feb.	4.55
30- 59 days	4.91	Mar.	4.45
60- 89 days	4.80	Apr.	4.40
90-179 days	4.75	May	4.35
180-239 days	4.60	Jun.	4.30
240-270 days	4.60		

‡ Industrial Paper–Prime			
30- 89 days	4.50%	†Federal Funds	
90-120 days	4.45	Effective Rate	4.38%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	3rd Q'91	$ 5,707r	$ 5,653r	$ 5,570r
Gross Domesticl Product (1987 Dollars)*	3rd Q'91	$ 4,861r	$ 4,841r	$ 4,903r
Percent Change, Annual Rate	3rd Q'91	1.7r	1.4r	0.2r
Change in Consumer Prices*	Nov '91n	4.8%	1.2%	3.6%
Change in MH Cost of Living Index*	Nov '91n	6.0%	1.2%	4.8%
Change in Producer Prices*	Nov '91n	2.4%	8.4%	4.8%
Civilian Employment (Thousands of Persons) †	Nov '91n	116,758	116,967	117,386
Unemployment as % of Civilian Labor Force †	Nov '91n	6.8%	6.8%	5.9%
Personal Income*	Oct '91	$ 4,857	$ 4,847	$ 4,696
Leading Indicators Composite Index (1967=100) †	Oct '91n	145.5	145.3r	141.5
Industrial Production Index (1977=100) †	Oct '91	108.2	108.2	109.9
Net Change in Consumer Installment Credit †	Oct '91n	$ 0.80	$ 0.04r	- $ 0.11
U.S. Merchandise Trade Balance †	Sep '91	- $ 6.79	- $ 6.53	- $ 9.08
Plant and Equipment Expenditures*	4th Q'91	$ 540.9(a)	$ 539.5(a)	$ 530.1r
Private Housing Starts (Thousands of Units)*	Oct '91	1,096	1,021	1,026
New Construction Expenditures*	Oct '91n	$ 411.5	$ 407.5r	$ 434.6
Total Business Inventories †	Oct '91n	$ 812.8	$ 809.8r	$ 829.1r
Total Business Sales †	Oct '91n	$ 542.7	$ 540.9r	$ 554.6r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised a-Anticipated

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**Financial
Digest**

Season's Greetings

1992

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Prósp

Buon Anno Nuovo

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Fröhliches Neues Jahr

Bonne

Short Term Paper Outstanding
(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/3/91)	170,572	- 68	- 34,939
New York City (12/11/91)	29,730	- 484	- 5,215
Commercial Paper (12/11/91)	538,616	+ 6,570	- 25,403

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/3/91)	292,658	- 1,660	- 26,162
New York City (12/11/91)	52,480	+ 56	- 4,916

Total Loans and Leases Gross Adjuste

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/3/91)	1,005,386	- 2,576	- 15,330
New York City (12/11/91)	166,001	- 474	- 13,805

Financial Markets

	Friday 12/27/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, 12 Noon Yields:			
90-Day Bills†	3.95%	+ .14	- 1.81
180-Day Bills†	4.04	+ .06	- 2.80
Longest Bills†	4.16	+ .11	- 2.72
Recent Issues:			
5s 12/31/93 (When Issued)	4.83	NA	
6¼s 12/31/96 (When Issued)	5.99	NA	
7⅛s 11/15/01	6.81	- .13	
8s 11/15/21	7.51	- .07	
Municipals:			
Bond Buyer—20 Bond Index* (12/26/91)	6.58%	- .08	- .56
Blue List Total ($ Million)	$ 774	- $392	- $775
30-Day Visible Supply ($ Million)	$ 932	+ $712	- $ 57
Total	$1,706	+ $320	- $832
Corporates:			
Moody's Aa Composite (12/26/91)	8.49%	- .11	- .91
30-Day Visible Supply ($ Million)	$ 100	-0-	+ $100
Stocks: (Thursday, 12/26/91)			
Dow-Jones Averages:			
Industrials	3,082.96	+ 168.60	+457.56
Transportation	1,315.02	+ 114.53	+401.60
Utilities	220.52	+ 6.76	+ 10.07
65 Stocks	1,124.31	+ 68.11	+203.90
N.Y.S.E. Composite Index	222.61	+ 11.70	+ 43.13
N.Y.S.E. Avg. Daily Vol. for Week (000's)	154,991	- 21,110	+75,381

*34% Taxable equivalent 9.97%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/27/91	Week Ago
Overnight	4.69%	4.25%
1 month	4.75	4.69
3 month	4.25	4.25
6 month	4.25	4.13
1 year	4.31	4.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/27/91)	Currency Per U.S. $	Week Ago
Belgium	31.28	31.56
Canada	1.1608	1.1553
France	5.1881	5.2520
Germany	1.5170	1.5340
Italy	1151.01	1166.00
Japan	125.89	127.65
Mexico	3094.80	3094.00
Netherlands	1.7112	1.7286
South Korea	744.76	742.69
Switzerland	1.3514	1.3600
Taiwan	25.46	25.47
U.K.*	1.8755	1.8603

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (12/27/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.3%	-12.8 %

NEW YEAR
カショウ
賀正
Manigong Bagong Taon
สวัสดีปีใหม่
ero Año Nuevo
كل عام وانتم بخير
새해복많이받으십시요
Καλὴ Χρονιὰ
Année
Gott Nytt År
Próspero Ano Novo

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/18/91	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	272.870	- 2,845	+27.226
Loans to Depository Inst.	.055	- .082	- .099
Float	.759	- .040	+ .088
Total Reserve Bank Credit	306.449	- 2.828	+19.946
Treasury Deposits with			
Federal Reserve Banks	5.838	+ .646	+ .433
Currency in Circulation	303.692	+ .396	+21.221
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	258.960	+ .101	+ 9.989
Member Bank Reserves:	12/11/91		
Total Reserves Held	54.444	+ 1.464	- 5.616
Excess (Deficiency)	.610	- .326	+ .049
Net Free Reserves	.501	- .334	+ .045
		‡ % Change Since 3 Months Ago*	Year Ago
Monetary Aggregates †			
M1 (12/9/91)	894.9	+ 12.4	+ 8.6
M2 (12/9/91)	3,415.3	+ 2.4	+ 2.6
M3 (12/9/91)	4,163.5	+ 1.4	+ 1.1
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/27/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.86%	3.89%	3.98%
* Federal Agencies	4.57	4.61	4.72
* Municipal Notes–High Grade (34% Taxable Equivalent)	5.30	5.60	6.06
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	4.50	4.30	4.35

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.07%	Jan.	5.15%
15- 29 days	4.63	Feb.	4.80
30- 59 days	4.50	Mar.	4.45
60- 89 days	4.38	Apr.	4.27
90-179 days	4.25	May	4.22
180-239 days	4.25	Jun.	4.23
240-270 days	4.25		

‡ Industrial Paper–Prime			
30- 89 days	4.50%	†Federal Funds	
90-120 days	4.50	Effective Rate	4.50%

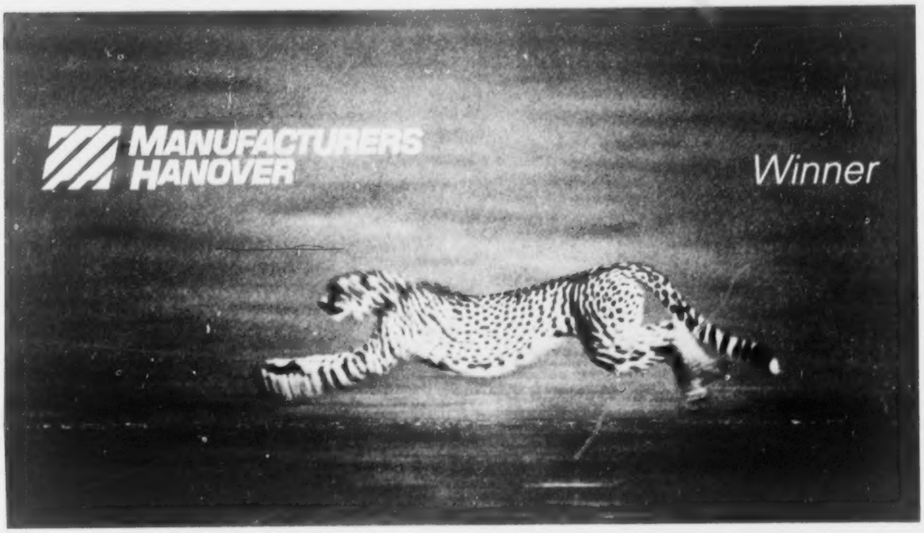
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	3rd Q'91	$ 5,709r	$ 5,653	$ 5,570
Gross Domestic Product (1987 Dollars)*	3rd Q'91	$ 4,863r	$ 4,841	$ 4,903
Percent Change, Annual Rate	3rd Q'91	1.8r	1.4--	0.2
Change in Consumer Prices*	Nov '91	4.8%	1.2%	3.6%
Change in MH Cost of Living Index*	Nov '91	6.0%	1.2%	4.8%
Change in Producer Prices*	Nov '91	2.4%	8.4%	4.8%
Civilian Employment (Thousands of Persons) †	Nov '91	116,758	116,967	117,386
Unemployment as % of Civilian Labor Force †	Nov '91	6.8%	6.8%	5.9%
Personal Income*	Nov '91 n	$ 4,879	$ 4,857	$ 4,716
Leading Indicators Composite Index (1967=100) †	Oct '91	145.5	145.3	141.5
Industrial Production Index (1977=100) †	Nov '91 n	107.8	108.2	108.3
Net Change in Consumer Installment Credit †	Oct '91	$ 0.80	$ 0.04	- $ 0.11
U.S. Merchandise Trade Balance †	Oct '91 n	- $ 6.73	- $ 6.93r	- $ 9.90
Plant and Equipment Expenditures*	1st Q'92 n	$ 563.3(a)	$ 532.0(a) r	$ 535.5
Private Housing Starts (Thousands of Units)*	Nov '91 n	1,066	1,089r	1,130
New Construction Expenditures*	Oct '91	$ 411.5	$ 407.5	$ 434.6
Total Business Inventories †	Oct '91	$ 812.8	$ 809.8	$ 829.1
Total Business Sales †	Oct '91	$ 542.7	$ 540.9	$ 554.6

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



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We salute the men and women from this year's victorious teams, and pay tribute to everyone whose desire and drive made this another winning season for the Manufacturers Hanover Corporate Challenge℠.

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General Electric Company (Men's)
General Electric Company (Women's)
Albany Medical Center (Coed)

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Georgia Tech (Men's)
Emory University (Women's)
Coca Cola Company (Coed)

BOSTON
Raytheon Corporation (Men's)
Digital Equipment Corporation (Women's)
Digital Equipment Corporation (Coed)

BUFFALO
U.S. Postal Service (Men's)
National Fuel Gas (Women's)
Computer Task Group (Coed)

CHICAGO
Arthur Andersen & Company (Men's)
Leo Burnett (Women's)
Arthur Andersen & Company (Coed)

LONG ISLAND
IBM Corporation (Men's)
Cold Spring Harbor Laboratory (Women's)
Grumman Corporation (Coed)

LOS ANGELES
Flour Daniel (Men's)
Northrop Corporation (Women's)
Walt Disney Company (Coed)

NEW YORK #1
Salomon Brothers Inc. (Men's)
Bank of New York (Women's)
Rockefeller University (Coed)

NEW YORK #2
Rodale Press Inc. (Men's)
Rodale Press Inc. (Women's)
J.P. Morgan & Company, Inc. (Coed)

OSLO
Postgirokontoret (Men's)
Kredittkassen BIL (Women's)
Det Norske Veritas (Coed)

PHILADELPHIA
The Vanguard Group Inc. (Men's)
Merck, Sharp & Dohme (Women's)
Rohm & Haas Co. (Coed)

ROCHESTER
Eastman Kodak Company (Men's)
Eastman Kodak Company (Women's)
Xerox Corporation (Coed)

STAMFORD
Union Carbide (Men's)
IBM Corporation (Women's)
Xerox Corporation (Coed)

STOCKHOLM
Scania (Men's)
Sydvastra Omsorgsomradet (Women's)
Siemens Elema AB (Coed)

SYRACUSE
General Electric Company (Men's)
General Electric Company (Women's)
Syracuse University (Coed)

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Financial
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MANUFACTURERS HANOVER

Financial Digest

Volume XXIX, Number 1
Monday, January 13, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Some Reasons For Optimism

As the new year begins to unfold, one can hardly be blamed for feeling downcast about the economy: Virtually every day brings another seemingly dismal economic statistic, the media eagerly pounces upon what it perceives to be the latest sign of business woes, and their colleagues in the economics fraternity occupy themselves with "doom and gloom" one-upmanship. Even the Administration has succumbed to the unrelenting howls of hard times ahead, shelving its cautious view that a modest business rebound began last spring, and is now searching for a credible plan to wake up the economy. But, while the public mood has soured and some admittedly weak economic numbers do grab the headlines, there is a surprisingly large amount of good news interspersed among the bad. These run the gamut from housing starts to exports to consumer finances, and belie the notion that the economy is unraveling at a quickening speed.

Nowhere is the perception of a darkening economy more evident than in the employment picture, which spills over into sagging consumer confidence and a pronounced reluctance to spend. Extensive lay-off announcements have become part and parcel of every disappointing corporate earnings report, initial claims for state jobless benefits remain at lofty levels and, perhaps most disturbing and certainly well-publicized, the Labor Department's monthly payroll employment tally compresses all the grim news into what seems to be a never-ending attrition of the paid workforce. But appearances can sometimes be deceiving. In what could be the most striking example of unintended and untimely negativism, it was initially reported that more than 240,000 payroll jobs vanished in November, a bright yellow caution light to both retailers and consumers preparing for the heart of the Holiday selling season.

Economics
Department
17/270

What escaped public notice at the time was the fact that the entire net jobs loss stemmed from the statisticians' computers, rather than actual payroll counts. Since retailers hired far fewer temporary workers for the holidays than they have in the past, this development alone translated into a huge job loss after seasonal adjustment; in reality, the retail trade actually added workers. Thus, the seasonally adjusted employment figures for November provided an absolutely dismal snapshot of labor market conditions, rendering irrelevant the fact that there was a small net gain in jobs during the month. To be sure, this is not intended to minimize the plight of the jobless, or those too discouraged to seek work, but it does illustrate how statistical myopia can needlessly damage public confidence.

Beneficiaries Of Lower Interest Rates

There is often a silver lining in even the darkest cloud and this time is no exception. The growing perception of an economy dead in the water has prompted the Federal Reserve to aggressively push interest rates lower. Two beneficiaries emerge almost immediately—housing, which is already on the mend, and exports, poised to receive an additional boost in response to earlier declines in the dollar. Take, for example, the housing industry. Although the public is reminded endlessly of falling property values and the apparent ineffectiveness of lower interest rates to jump-start the economy, it is precisely these two factors which have enhanced the affordability of housing. With the percentage of households that can afford a home ratcheting higher, new home sales have risen by 26 percent since their January 1991 trough, and existing home sales have jumped by nearly 15 percent during the same period. In response, builders have stepped up their activity. Housing starts are up by 26 percent compared with January 1991 and building permits have advanced by better than 24 percent.

Exports, too, provide grounds for optimism. For notwithstanding a slowdown in economic growth throughout most of the industrial world, overseas sales continue to increase at a healthy clip. Inflation-adjusted exports are up 11 percent since February, paced by a sharp double-digit increase in capital goods exports. This, in turn, has helped to stimulate a modest rebound in manufacturing activity. Although industrial

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production is up by only three percent since March, more robust output gains should be in the offing. For one thing, order books are getting fatter. Total factory orders are up by about 7½ percent since March, with a hefty 25 percent rise in nondefense capital goods orders leading the way. For another, modest output gains and eight straight months of rising factory shipments have pared factory inventories. The inventory-to-sales ratio for all manufacturing now stands at its lowest level in 12½ years, suggesting that further order gains will almost have to translate into stepped-up production. Finally, vigorous cost-cutting and lower interest costs will boost corporate earnings and cash flow, setting the stage for additional capital spending.

Nor do the positives end at homebuilding sites or factory order books. The consumer seems to possess a bit more life than popularly assumed. Although the final tally is not yet in, and the Holiday selling season certainly disappointed many retailers, others reported brisk sales growth. What is more, December apparently ended on a more positive note than it began. Anecdotal reports suggest that post-Christmas retail activity was healthier than anticipated, and even automobile sales jumped decidedly

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (12/25/91)	164,144	- 2,205	- 36,943
New York City (1/1/92)	27,403	- 1,081	- 7,673
Commercial Paper (1/1/92)	526,531	- 9,989	- 30,728

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (12/25/91)	289,945	- 2,000	- 26,664
New York City (1/1/92)	50,576	- 972	- 6,331

Total Loans and Leases Gross Adjusted

	Latest Week	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (12/25/91)	1,008,822	- 1,257	- 14,548
New York City (1/1/92)	161,973	- 5,330	- 21,384

Financial Markets

	Friday 1/10/92	**Change Since Week Ago**	**Change Since Year Ago**
U.S. Governments, 12 Noon Yields:			
90-Day Bills†	3.89%	- .04	- 2.45
180-Day Bills†	3.99	- .01	- 2.55
Longest Bills†	4.11	-0-	- 2.50
Recent Issues:			
5s 12/31/93	4.82	+ .05	
6¼s 12/31/96	6.11	+ .07	
7½s 11/15/01	6.84	+ .01	
8s 11/15/21	7.46	- .01	
Municipals:			
Bond Buyer—20 Bond Index* (1/9/92)	6.40%	- .12	- .75
Blue List Total ($ Million)	$ 785	+ $101	- $570
30-Day Visible Supply ($ Million)	$2,649	- $203	+ $746
Total	$3,434	- $102	+ $176
Corporates:			
Moody's Aa Composite (1/9/92)	8.42%	- .03	- .99
30-Day Visible Supply ($ Million)	$ 400	+ $400	- $125
Stocks: (Thursday, 12/26/91)			
Dow-Jones Averages:			
Industrials	3,199.46	- 2.02	+707.12
Transportation	1,351.84	+ 1.13	+446.38
Utilities	216.07	- 9.52	+ 11.84
65 Stocks	1,154.19	- 7.15	+266.99
N.Y.S.E. Composite Index	228.95	- 1.40	+ 56.66
N.Y.S.E. Avg. Daily Vol. for Week (000's)	257,202	+ 28,229	+109,373

*34% Taxable equivalent 9.70%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 1/10/92**	**Week Ago**
Overnight	4.06%	4.44%
1 month	4.06	4.13
3 month	4.00	4.06
6 month	4.00	4.06
1 year	4.19	4.19

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/10/92)	**Currency Per U.S. $**	**Week Ago**
Belgium	32.41	31.86
Canada	1.1538	1.1477
France	5.3705	5.2810
Germany	1.5740	1.5475
Italy	1188.30	1167.40
Japan	126.70	124.70
Mexico	3098.20	3074.00
Netherlands	1.7730	1.7427
South Korea	748.50	746.53
Switzerland	1.4031	1.3735
Taiwan	24.89	25.49
U.K.*	1.8026	1.8470

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (1/10/92) (Adjusted for Inflation)	**Change Since Week Ago**	**Change Since 2/27/85**
	+1.3%	-11.9%

higher at month's end. Moreover, the recent period of subdued consumer spending does have a positive side. At 5½ percent, the savings rate is currently above the average of the 1987-1991 period and, with consumers paying down debt in eight of the past 13 months, the ratio of installment debt to disposable income has dropped to about the lowest level in six years—laying the groundwork for an appreciable spending upturn once confidence returns.

Is The Recession Still On?

When this will happen is anyone's guess, especially in light of heightened recession perceptions. But, if the economy is indeed in the midst of its longest postwar recession—as many of the more vocal pundits argue—then the current situation is unique in another respect. The gross domestic product expanded in both the second and third quarters of last year and never before has a post-war recession been interrupted by back-to-back growth quarters. This means that even if the GDP did contract slightly in the quarter just ended—by no means a sure bet—it would be premature to conclude that the recession is still on. More likely, the fourth quarter was a refreshing pause, providing a springboard for a solid rebound later this year. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/8/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	276.149	- 9.677	+33.641
Loans to Depository Inst.	.873	+ .705	+ .550
Float	.982	+ .287	- .063
Total Reserve Bank Credit	312.070	- 8.587	+28.761
Treasury Deposits with Federal Reserve Banks	6.147	- 6.858	- .759
Currency in Circulation	306.821	- .823	+20.585
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	257.348	+ 6.139	+ 7.177
Member Bank Reserves:	**1/8/92**		
Total Reserves Held	57.185	+ 1.693	- 9.183
Excess (Deficiency)	1.206	+ .007	- 2.386
Net Free Reserves	.686	- .398	- 2.633
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (12/30/91)	895.9	+ 12.1	+ 8.6
M2 (12/30/91)	3,409.6	+ 2.9	+ 2.6
M3 (12/30/91)	4,145.6	+ 2.4	+ 1.1
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/10/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.81%	3.87%	3.94%
* Federal Agencies	4.00	4.00	4.25
* Municipal Notes–High Grade (34% Taxable Equivalent)	3.94	3.94	4.39
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	4.00	3.98	4.10

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.80%	Feb.	4.06%
15- 29 days	3.85	Mar.	4.03
30- 59 days	3.92	Apr.	4.00
60- 89 days	3.95	May	3.98
90-179 days	3.95	Jun.	3.96
180-239 days	4.00	Jul.	3.92
240-270 days	4.00		

‡ Industrial Paper–Prime			
30- 89 days	3.99%	†Federal Funds	
90-120 days	3.95	Effective Rate	3.75%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	3rd Q'91	$ 5,709	$ 5,653	$ 5,570
Gross Domestic Product (1987 Dollars)*	3rd Q'91	$ 4,863	$ 4,841	$ 4,903
Percent Change, Annual Rate	3rd Q'91	1.8	1.4	0.2
Change in Consumer Prices*	Nov '91	4.8%	1.2%	3.6%
Change in MH Cost of Living Index*	Nov '91	6.0%	1.2%	4.8%
Change in Producer Prices*	Dec '91 n	- 2.4%	2.4%	- 7.2%
Civilian Employment (Thousands of Persons) †	Dec '91 n	116,728	116,772r	117,476r
Unemployment as % of Civilian Labor Force †	Dec '91 n	7.1%	6.9% r	6.1% r
Personal Income*	Nov '91	$ 4,879	$ 4,857	$ 4,716
Leading Indicators Composite Index (1967=100) †	Nov '91 n	145.1	145.5	139.7
Industrial Production Index (1977=100) †	Nov '91	107.8	108.2	108.3
Net Change in Consumer Installment Credit †	Nov '91 n	$ 0.03	$ 1.67r	$ 0.98
U.S. Merchandise Trade Balance †	Oct '91	- $ 6.73	- $ 6.93	- $ 9.90
Plant and Equipment Expenditures*	1st Q'92	$ 563.3(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Nov '91	1,066	1,089	1,130
New Construction Expenditures*	Nov '91 n	$ 406.3	$ 409.4r	$ 431.4
Total Business Inventories †	Oct '91	$ 812.8	$ 809.8	$ 829.1
Total Business Sales †	Oct '91	$ 542.7	$ 540.9	$ 554.6

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

Financial Digest

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Now, Chemical Banking Corporation and Manufacturers Hanover Corporation are one.

The new holding company is Chemical Banking Corporation, with $139 billion in assets and $7.1 billion in shareholders' equity. Few competitors exceed our capital strength, which we will continue to build. Our financial strength and staying power are beyond doubt.

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In operating services such as cash management, global securities and corporate trust, no other institution will have more customers or so broad a range of high-tech product offerings.

Our merger also serves as the model for an industry; other financial institutions are now following our lead, and the consolidations needed to revitalize American banking are under way countrywide.

As our customers and competitors will soon learn, this is not the last time we'll be first.

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Financial Digest

Volume XXIX, Number 2
Monday, January 27, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Europe Moves Toward Single Currency

Despite the damaging effects of higher interest rates on their fragile economies, the European countries have reaffirmed their commitment to exchange rate stability—even at the expense of slower economic growth and higher unemployment—in preparation for monetary union by the end of the decade. In an effort to dampen the inflationary pressures from German unification, the Bundesbank raised its key interest rates again last month, marking the third time the central bank tightened monetary policy last year. Following the Bundesbank's move, almost every EMS member country chose to raise its own interest rates rather than devalue its currency against the mark. The only exception was the United Kingdom, whose economy is mired in recession and whose government must face a general election in less than six months. But even there, Prime Minister John Major reaffirmed that he would increase interest rates before he would devalue sterling.

Commitment to exchange rate stability marks a complete turnaround in economic policy on the part of many European countries, who, only a few years ago, would have resorted to currency devaluation as a means of sparking economic growth. However, these countries have now come to realize that the competitive advantage gained from devaluation would be offset by the negative effects on inflation. Take, for example, France. Not only has exchange rate discipline contributed to a marked slowing in France's inflation rate, but lower inflation, in turn, has improved the competitiveness of French industrial products, thereby helping to reduce the country's trade deficit to around 30 billion francs last year from almost 50 billion francs in 1990.

Economics
Department
17/270

What is more, the leaders of all 12 European Community (EC) member countries agreed last month to sign a treaty that will move the community toward closer monetary ties by the end of the decade. One of the principal achievements of the two-day summit meeting in the Dutch town of Maastricht was the decision to create a single European currency and regional central bank no later than 1999. Although many details have yet to be worked out, the agreement satisfied Germany's insistence on tough economic standards that each country must meet in order to qualify for monetary union, as well as France and Italy's desire for a specific timetable. The three-stage timetable for European monetary union (Emu) began on July 1, 1990 when all EC members agreed to strive for closer economic cooperation and coordination. During the second stage, which will begin on January 1, 1994, the countries will start the process leading to the independence of their central banks. At the same time, the European Monetary Institute (EMI) will be created in preparation for the single central bank.

The most important issue that was settled during last month's summit meeting was the exact procedure of the move to the third and final stage to monetary union. The treaty states that the EC Commission and the EMI will decide which of the aspiring members of the currency union have met the strict economic criteria demanded by Germany. Under the broad agreement, if a majority of the EC members meet the economic criteria by the end of 1996, the community will then vote whether to approve the creation of a regional central bank and the printing of a single currency. If a majority of the countries do not fulfill the economic criteria by the end of 1996, however, a common central bank will be established on July 1, 1998 and a single currency will automatically be created in 1999 by all countries that meet the criteria, even if they number fewer than seven. Other countries will then adopt the single currency when they satisfy the conditions.

Strict Criteria For Membership

The criteria that each country must meet in order to participate in the monetary union are extremely tough. In particular, each aspiring participant must reduce its inflation rate and long-term interest rates to within 1½ percentage points and two percentage points, respectively, of those of the EC's three best performers. At the same time, each country must keep its currency within the narrow 2¼ percent band of the exchange rate mechanism of the EMS. At the moment, neither the Portuguese escudo nor the Greek drachma belong to the EMS, while both Spain and the United Kingdom are allowed to keep their currencies within a wider six percent band. What is more, no country is permitted to

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devalue its currency during the two years before joining the monetary union. On the fiscal front, all participating countries must avoid excessive budget deficits, which will be measured by two criteria: The budget deficit should not exceed three percent of GDP, and the public debt should not exceed 60 percent of GDP.

The combination of the timetable for Emu, the tough criteria for membership and the "opt-out" clause for the United Kingdom indicates that the move to monetary union will occur at multiple speeds. It is possible that very few countries will meet the requirements by 1999. Only France and Luxembourg satisfy all of the criteria at the moment, although Denmark comes close.

The Going Will Be Tough

While monetary union is expected to bring many long-term benefits to the European Community, in the short term, efforts to bring down inflation rates and slash budget deficits mean several more years of pain in a region already suffering from slow growth and high unemployment. Although many EC members have reduced substantially their inflation rates during the past several years, much further progress must be made by such countries as Spain, Italy, Portugal and Greece. The main difficulty for

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/8/92)	164,476	+ 1,4[illegible]	48,235
New York City (1/15/92)	29,249	- 240	- 6,426
Commercial Paper (1/15/92)	534,155	+ 61	- 31,474

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/8/92)	290,259	- 3,136	- 27,606
New York City (1/15/92)	50,936	+ 411	- 5,549

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/8/92)	1,023,624	+ 3,214	- 35,841
New York City (1/15/92)	166,796	+ 2,486	- 10,234

Financial Markets

	Friday 1/24/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.89%	+ .02	- 2.44
180-Day Bills†	4.04	+ .03	- 2.46
Longest Bills†	4.20	+ .07	- 2.38
Recent Issues:			
4⅞s 1/31/94 (When Issued)	5.13	NA	
6¼s 1/31/97 (When Issued)	6.38	NA	
7½s 11/15/01	7.22	+ .13	
8s 11/15/21	7.70	+ .08	
Municipals:			
Bond Buyer—20 Bond Index* (1/23/92)	6.59%	+ .03	- .47
Blue List Total ($ Million)	$1.346	+ $ 96	+$ 276
30-Day Visible Supply ($ Million)	$3,685	+ $1,004	+$2,305
Total	$5,031	+ $1,100	+$2,561
Corporates:			
Moody's Aa Composite (1/23/92)	8.58%	+ .03	- .77
30-Day Visible Supply ($ Million)	$ 209	+ $ 209	- $ 526
Stocks:			
Dow-Jones Averages:			
Industrials	3,232.79	- 32.19	+573.38
Transportation	1,362.30	- 59.60	+325.81
Utilities	214.07	+ 2.25	+ 7.14
65 Stocks	1,162.17	- 19.72	+204.40
N.Y.S.E. Composite Index	229.17	- 1.72	+ 45.79
N.Y.S.E. Avg. Daily Vol. for Week (000's)	213,487	- 65,619	+21,503

*34% Taxable equivalent 9.98%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/24/92	Week Ago
Overnight	3.94%	3.81%
1 month	4.06	4.06
3 month	4.13	4.06
6 month	4.19	4.13
1 year	4.50	4.44

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/24/92)	Currency Per U.S. $	Week Ago
Belgium	33.17	33.12
Canada	1.1673	1.1535
France	5.4895	5.4880
Germany	1.6100	1.6090
Italy	1213.00	1213.00
Japan	124.20	127.25
Mexico	3100.80	3099.80
Netherlands	1.8129	1.8115
South Korea	750.27	747.52
Switzerland	1.4315	1.4315
Taiwan	24.83	24.91
U.K.*	1.7810	1.7770

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (1/24/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	-12.2%

most countries will be achieving both of the budget deficit criteria. Eight of the 12 EC members currently record budget deficits equivalent to more than three percent of GDP, while seven of them post public debts in excess of 60 percent of GDP. In fact, the public debts of Italy, Belgium and Ireland are larger than their entire economies.

While the going will be tough, the knowledge that no country can halt the move to monetary union should be a powerful incentive for improved economic performance among the laggards. Indeed, the day after the summit, Italy announced that it will scrap the "scala mobile", its wage index system that has hurt industrial competitiveness and fueled inflation for 46 years.

Another powerful incentive for each country to participate in monetary union will be the opportunity—through representation in the single central bank—to have a voice in monetary policy. As it stands now, monetary policy for the region is virtually decided by the Bundesbank alone. While price stability will be the overriding goal of the single central bank, economic conditions in all of the countries participating in monetary union, not just in Germany, will be considered. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/22/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	271.190	- .714	+32.006
Loans to Depository Inst.	.214	+ .157	- 1.140
Float	.821	- .163	- .061
Total Reserve Bank Credit	306.959	- .698	+25.468
Treasury Deposits with Federal Reserve Banks	6.072	+ .618	+ .578
Currency in Circulation	301.959	- 1.888	+18.254
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	262.310	+ 3.412	+12.424
Member Bank Reserves:	1/22/92		
Total Reserves Held	55.839	- 1.320	- 5.091
Excess (Deficiency)	.935	- .216	- .002
Net Free Reserves	.799	+ .168	+ .718
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (1/13/92)	903.5	+ 11.0	+ 8.8
M2 (1/13/92)	3,422.3	+ 3.1	+ 2.7
M3 (1/13/92)	4,171.0	+ 2.1	+ 1.1
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/24/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.77%	3.88%	3.99%
* Federal Agencies	3.90	4.10	4.25
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.24	4.32	4.55
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	4.06	4.10	4.35

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.92%	Feb.	4.00%
15- 29 days	3.93	Mar.	4.00
30- 59 days	4.00	Apr.	3.98
60- 89 days	4.05	May	3.98
90-179 days	4.12	Jun.	3.97
180-239 days	4.13	Jul.	3.97
240-270 days	4.13		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	4.10%		
90-120 days	4.10	Effective Rate	3.88%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	3rd Q'91	$ 5,709	$ 5,653	$ 5,570
Gross Domestic Product (1987 Dollars)*	3rd Q'91	$ 4,863	$ 4,841	$ 4,903
Percent Change, Annual Rate	3rd Q'91	1.8	1.4	0.2
Change in Consumer Prices*	Dec '91 n	3.6%	4.8%	3.6%
Change in CHEM Cost of Living Index*	Dec '91 n	2.4%	6.0%	4.8%
Change in Producer Prices*	Dec '91	- 2.4%	2.4%	- 7.2%
Civilian Employment (Thousands of Persons) †	Dec '91	116,728	116,772	117,476
Unemployment as % of Civilian Labor Force †	Dec '91	7.1%	6.9%	6.1%
Personal Income*	Nov '91	$ 4,879	$ 4,857	$ 4,764r
Leading Indicators Composite Index (1967=100) †	Nov '91	145.1	145.5	139.7
Industrial Production Index (1977=100) †	Dec '91 n	107.8	108.0r	107.2
Net Change in Consumer Installment Credit †	Nov '91	$ 0.03	$ 1.67	$ 0.98
U.S. Merchandise Trade Balance †	Nov '91 n	- $ 3.57	- $ 6.32r	- $ 9.54
Plant and Equipment Expenditures*	1st Q'92	$ 563 3(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Dec '91 n	1,103	1,075r	971
New Construction Expenditures*	Nov '91	$ 406.3	$ 409.4	$ 431.4
Total Business Inventories †	Nov '91 n	$ 814.3	$ 813.0r	$ 830.9r
Total Business Sales †	Nov '91 n	$ 543.6	$ 543.0r	$ 546.5

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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CHEMICAL BANKING
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Financial Digest

Volume XXIX, Number 3 Monday, February 10, 1992

Analysis of Business Trends Plus Selected Financial Indicators

Fiscal Policy Palliatives

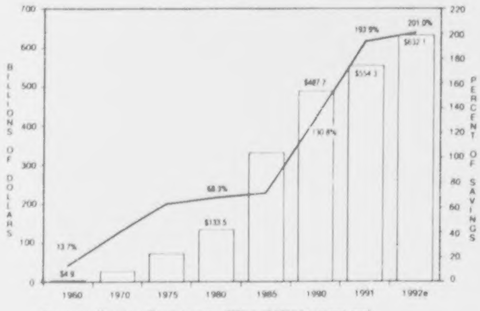
With the Presidential election campaign about to shift into second gear and the economy stuck in neutral, the Administration recently unveiled a fiscal policy package designed to jump-start business activity. Although it had been feared that the budget proposals would contain an imprudent mix of fiscal excess and election year gimmickry, the program offered in the State of the Union Message attempted to walk a fine line between short-term economic needs and the indisputable realization that future budget deficits must be contained. For this reason, a wide variety of generally limited palliatives was recommended, ranging from diminished income tax withholding from workers' paychecks to a modest paring of the capital gains tax rate to a first-time homebuyers' tax credit, rather than sweeping across-the-board income tax cuts which could seriously compromise longer-run deficit reduction efforts. As it is, the budget outlook is less than sanguine, with hefty annual deficits projected well into the future.

Nonetheless, with business barely crawling into the new year, it was a foregone conclusion that Washington would initiate some steps to assist the economy, near-term. The principal problem confronting the policymakers was how to do so without swelling the deficit to gargantuan proportions, thereby unnerving the bond markets and triggering an unwelcome rise in long-term interest rates. The result is a grab bag of tax breaks and temporary incentives, many of which have been implemented before, designed to encourage consumer spending, investment outlays and housing, offset to some extent by selective spending cuts. The net result adds only marginally to the deficit.

Economics Department
17/270

One of the central features of the program is a trimming of income tax withholding. Since most workers have more withheld from their paychecks than is necessary to satisfy their Federal tax obligations, this change limits overwithholding and boosts spendable income. For the average married taxpayer, this will work out to about $350 over the course of the year. While this may seem paltry, it does add up to an approximately $25 billion "backdoor" tax cut. Another widely-publicized element of the program is a temporary ten percent tax credit, up to $5,000, for first-time homebuyers who purchase a home this year. Once again, while this may seem like a modest amount, a similar inducement in the mid-1970s provided a strong fillip to a dormant housing industry. In 1975, a temporary $2,000 tax credit was offered to purchasers of a new home; within a year, housing starts had nearly doubled. So, too, the proposed 15 percent, temporary investment tax allowance for new equipment purchases has been in and out of the tax codes numerous times, most recently in 1986.

TOTAL FEDERAL GOVERNMENT BORROWINGS* (BAR) VS.
FEDERAL BORROWINGS AS A PERCENT OF NATIONAL SAVINGS (LINE)
<SELECTED FISCAL YEARS>



Sources: Treasury Department; Office of Management and Budget; Chemical

*Consists of borrowings from public, Federally-guaranteed loans and borrowing by Federally-sponsored enterprises and borrowing from trust funds.

Short-Term Stimulus

The President's message contains both pluses and minuses. On the plus side, by proposing largely tested, selective measures the Administration accomplishes two things: First, it stands a fair chance of providing a short-run lift to the economy and, second, it does so without substantially widening the deficit. For although the budget gap is now projected to widen to a whopping $400 billion in fiscal 1992, or $51 billion more than was estimated just six months ago, the bulk of the deterioration can be traced to economic weakness, rather than the recommended initiatives. They add up to roughly $20 billion in foregone revenues; this is far overshadowed by the additional $50 billion that will be "lost" due to the weaker-than-expected economy. On the spending side, not much has

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changed except that outlays associated with the savings and loan bailout are running below expectations this year—the biggest element of a $19 billion downward revision in estimated Federal outlays in fiscal 1992.

But the minus side is even more stark, and the implications far-reaching: Massive Federal deficits will persist throughout the remainder of the decade. Even under favorable circumstances, the fiscal 1993 budget deficit is projected to recede only slightly—to $352 billion. Beyond that, the outlook is not much brighter, with deficits averaging $200 billion in each year between fiscal 1994 and fiscal 1997. Putting the six-year, fiscal 1992-97 period together yields a sobering conclusion—namely, that the Federal government is at the threshold of adding $1.5 trillion of debt to the existing debt mountain even if growth picks up, inflation remains becalmed and interest rates in check. And, since "outyear" budget deficit estimates are often notoriously optimistic—usually trending steadily lower—this may well be a "best case" expectation.

Long-Run Blues?

If it is, problems loom on the horizon. With the ratio of Federal debt to gross national product

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/22/92)	161,562	- 1,373	- 50,584
New York City (1/29/92)	28,807	- 22	- 5,287
Commercial Paper (1/29/92)	541,887	+ 3,606	- 25,746

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/22/92)	289,601	- 592	- 29,348
New York City (1/29/92)	50,785	+ 26	- 5,849

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/22/92)	1,019,747	- 5,788	- 38,417
New York City (1/29/92)	161,949	- 1,816	- 13,306

Financial Markets

	Friday 2/7/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.81%	- .12	- 2.26
180-Day Bills†	3.91	- .13	- 2.23
Longest Bills†	4.08	- .11	- 2.09
Recent Issues:			
4⅞s 1/31/94	4.93	- .17	
6¼s 1/31/97	6.36	- .07	
7½s 11/15/01	7.19	- .10	
8s 11/15/21	7.77	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (2/6/92)	6.71%	+ .06	- .15
Blue List Total ($ Million)	$1,359	- $ 170	+$ 538
30-Day Visible Supply ($ Million)	$6,666	+ $1,734	+$3,297
Total	$8,025	+ $1,564	+$3,835
Corporates:			
Moody's Aa Composite (2/6/92)	8.59%	-0-	- .60
30-Day Visible Supply ($ Million)	$ 703	- $ 356	+$ 198
Stocks:			
Dow-Jones Averages:			
Industrials	3,225.40	+ 2.01	+394.71
Transportation	1,383.23	+ 28.97	+280.98
Utilities	206.25	- 4.13	- 8.41
65 Stocks	1,160.05	+ 4.53	+145.14
N.Y.S.E. Composite Index	227.65	+ 1.45	+ 31.55
N.Y.S.E. Avg. Daily Vol. for Week (000's)	229,062	+ 19,729	- 30,693

*34% Taxable equivalent 10.17%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/7/92	Week Ago
Overnight	4.00%	4.06%
1 month	3.94	4.06
3 month	3.94	4.06
6 month	3.94	4.19
1 year	4.44	4.56

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/7/92)	Currency Per U.S. $	Week Ago
Belgium	32.31	33.27
Canada	1.1840	1.1734
France	5.3445	5.5075
Germany	1.5685	1.6160
Italy	1180.00	1212.80
Japan	125.22	125.14
Mexico	3103.80	3102.40
Netherlands	1.7660	1.8177
South Korea	747.91	747.71
Switzerland	1.3988	1.4365
Taiwan	24.69	24.74
U.K.*	1.8300	1.7815

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (2/7/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.3%	-12.2%

spiking from less than 60 percent in fiscal 1990 to an estimated 73 percent by fiscal 1995, the financial markets will have to continue to wrestle with a deluge of Treasury securities. To be sure, as long as private credit demands remain subdued, the impact on interest rates will be muted. However, private credit needs will not remain as lethargic as they are now forever, ensuring that the seeds of ascending interest rates are never far below the surface.

But interest rates are only part of the story. More troubling is the fact that the Federal government is absorbing an ever-larger share of the nation's resources, leaving less for everyone else. As shown in the chart, total Federal and Federal-related borrowings will be equivalent to more than 200 percent of national savings in the current fiscal year, compared with less than 14 percent three decades ago. This limits the savings pool elsewhere, potentially pinching everything from corporate expansion plans to a potential homebuyer's ability to secure an affordable mortgage. To some, this may be acceptable. However, it does imply that the private sector will be increasingly emasculated, playing second-fiddle to Washington's voracious appetite. Failure to address this long-run conundrum was the greatest omission in the State of the Union Message. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	2/5/92	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	268.503	+ .130	+25,322
Loans to Depository Inst.	.161	+ .064	- .073
Float	.369	- .242	- .816
Total Reserve Bank Credit	302.910	- .625	+17.198
Treasury Deposits with Federal Reserve Banks	8.599	- .254	- 2.583
Currency in Circulation	300.142	- .443	+17.198
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	265.276	+ 1.338	+10.214
Member Bank Reserves:	2/5/92		
Total Reserves Held	54.480	- 1.383	- 6.421
Excess (Deficiency)	1.088	+ .163	- 1.633
Net Free Reserves	.961	+ .172	- 1.599
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (1/27/92)	924.4	+ 13.5	+ 10.0
M2 (1/27/92)	3,477.6	+ 3.8	+ 2.9
M3 (1/27/92)	4,199.7	+ 2.8	+ 1.1
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/7/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.72%	3.76%	3.88%
* Federal Agencies	3.80	3.90	4.00
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.02	4.09	4.47
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.99	4.02	4.35

‡ Finance Company Paper–Prime	
5- 14 days	3.80%
15- 29 days	3.85
30- 59 days	3.90
60- 89 days	3.95
90-179 days	3.97
180-239 days	4.00
240-270 days	4.00

‡* Bankers' Acceptances	
Mar.	3.87%
Apr.	3.85
May	3.83
Jun.	3.83
Jul.	3.82
Aug.	3.82

‡ Industrial Paper–Prime	
30- 89 days	4.02%
90-120 days	3.98

†Federal Funds	
Effective Rate	3.62%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	4th Q'91 n	$ 5,737	$ 5,709	$ 5,558
Gross Domestic Product (1987 Dollars)*	4th Q'91 n	$ 4,866	$ 4,863	$ 4,855
Percent Change, Annual Rate	4th Q'91 n	0.3	1.8	- 3.9
Change in Consumer Prices*	Dec '91	3.6%	4.8%	3.6%
Change in CHEM Cost of Living Index*	Dec '91	2.4%	6.0%	4.8%
Change in Producer Prices*	Dec '91	- 2.4%	2.4%	- 7.2%
Civilian Employment (Thousands of Persons) †	Jan '92 n	117,117	116,728	116,977
Unemployment as % of Civilian Labor Force †	Jan '92 n	7.1%	7.1%	6.2%
Personal Income*	Dec '91 n	$ 4,923	$ 4,874r	$ 4,790
Leading Indicators Composite Index (1967=100) †	Dec '91 n	144.8	145.2r	139.4
Industrial Production Index (1977=100) †	Dec '91	107.8	108.0	107.2
Net Change in Consumer Installment Credit †	Nov '91	$ 0.03	$ 1.67	$ 0.98
U.S. Merchandise Trade Balance †	Nov '91	- $ 3.57	- $ 6.32	- $ 9.54
Plant and Equipment Expenditures*	1st Q'92	$ 563.3(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Dec '91	1,103	1,075	971
New Construction Expenditures*	Dec '91 n	$ 407.4	$ 408.4r	$ 421.3
Total Business Inventories †	Nov '91	$ 814.3	$ 813.0	$ 830.9
Total Business Sales †	Nov '91	$ 543.6	$ 543.0	$ 546.5

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial Digest

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CHEMICALBANKING
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Financial Digest

Volume XXIX, Number 4 Monday, February 24, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

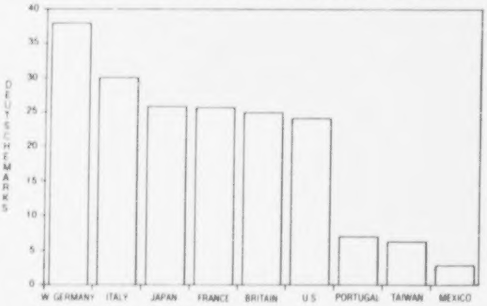
Wage Pressures Build In Germany

Expectations that European interest rates would begin to descend within the near future were dealt a setback in early February by a wage settlement in Germany, which granted steel workers there a 6.4 percent pay hike. While this agreement involved only a small number of workers, and wage pacts in one country do not normally have significant international ramifications, this one did, since the single most important factor determining how quickly the German Bundesbank loosens its monetary grip will be the outcome of this spring's wage negotiations. And until the Bundesbank lowers German interest rates, the other European central banks will have their hands tied. They will be forced to keep their own interest rates at current lofty levels because of the European Monetary System's objective of promoting foreign exchange market stability (Financial Digest, January 20, 1992).

Since the pay settlement in the steel industry was the first wage pact concluded this year, it might influence the major round of pay talks this spring, when IG Metall, Germany's largest and most powerful labor union, negotiates wages for nearly four million metal and engineering workers. Warily watching from the sidelines will be the Bundesbank, which has repeatedly warned against the inflationary dangers of excessive wage settlements. It is widely believed that a major reason why the central bank raised its key interest rates last December, notwithstanding the softening pace of business, was to send a tough message to negotiators that it would not tolerate what it deems to be overly-generous pay settlements this year. Unfortunately, the warnings seemed to have fallen on deaf ears, since the 6.4 percent wage agreement is well outside the five percent range that the German government stated was the most that the economy could afford.

While seemingly ignoring the Bundesbank's message, the steel workers and their employers sent their own signal back to the German government. Despite such persistent problems in the steel industry as low productivity, hefty layoffs and mounting losses, the overwhelming size of the vote to strike—a 95 percent turnout and an 87 percent majority in favor of a walkout—demonstrated that the workers were willing to stop work in order to obtain their pay demands. At the same time, employers expressed their desire to avoid confrontation, accepting a settlement in excess of six percent even before the walkout began, thereby encouraging union members in other industries throughout Germany. Immediately following the agreement, IG Metall indicated that the steel settlement would act as a bellwether for the engineering workers when their pay negotiations begin next month, with pay talks in the banking, construction and public sectors following soon thereafter.

LABOR COSTS IN SELECTED COUNTRIES
HOURLY LABOR COSTS (INCLUDING WAGES & BENEFITS)



Source Institute of German Industry

Negative Consequences

While the outcome of the steel negotiations avoided a strike, which would have been particularly damaging to Germany's important auto industry, it appears to have set a precedent that neither industry, labor nor the economy can afford to follow. For one thing, German labor costs, already the highest in the world, will increase further. According to the Institute of German Industry, the average German worker cost almost 38 marks, or $24 an hour in wages and benefits at the end of 1990, compared with average labor costs of around 25 marks, or roughly $16 per hour in such countries as Japan, the United Kingdom and the United States. The latest agreement is estimated to cost the industry up to 600 million marks a year. This could dampen capital spending and encourage companies to move operations elsewhere. In 1990, German companies invested almost 30 billion marks abroad, ten times the amount of foreign direct investment in Germany. The gap widened even further last year.

Economics
Department
17/270

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For another, excessive wage hikes could also darken an already deteriorating employment picture. The engineering industry said that 20,000 workers were laid off last year because of high labor costs and warned that a further 50,000-60,000 workers could lose their jobs this year if restraint evaporated in the upcoming wage round. Indeed, Germany's latest employment data reinforced the importance of these warnings: The number of jobless workers in western Germany jumped to 1.9 million in December, bringing the unemployment rate to seven percent from 6½ percent in November. Including the 1.3 million jobless in the east, there are now 3.2 million workers without jobs in all of Germany. In fact, the number of unemployed workers in the five eastern provinces jumped by over 300,000 in December, the largest monthly rise since the two economies merged in July 1990. Thus, given eastern Germany's huge investment needs and the deteriorating job picture nationally, it is disturbing that a pay pact was reached which could well serve to enhance the allure of overseas operations.

High interest rates, rising labor costs and shrinking company profits do not bode well for Germany's economic health. Although the government has so far avoided using the "R" word, by some definitions the country is already in re-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/5/92)	161,401	+ 753	- 50,412
New York City (2/12/92)	28,637	- 125	- 5,311
Commercial Paper (2/12/92)	533,869	- 1,512	- 33,717

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/5/92)	290,774	+ 2,078	- 29,287
New York City (2/12/92)	50,116	- 1,096	- 7,194

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/5/92)	1,025,094	+ 9,507	- 37,548
New York City (2/12/92)	162,440	- 4,099	- 14,484

Financial Markets

	Friday 2/21/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.01%	+ .13	- 2.10
180-Day Bills†	4.16	+ .13	- 2.05
Longest Bills†	4.41	+ .13	- 1.89
Recent Issues:			
4⅞s 1/31/94	5.41	+ .20	
6¼s 1/31/97	6.74	+ .13	
7½s 11/15/01	7.44	+ .04	
8s 11/15/21	7.94	+ .04	
Municipals:			
Bond Buyer—20 Bond Index* (2/20/92)	6.75%	+ .01	+ .04
Blue List Total ($ Million)	$1,341	- $ 106	- $ 104
30-Day Visible Supply ($ Million)	$5,290	- $1,216	+$2,635
Total	$6,631	- $1,322	+$2,531
Corporates:			
Moody's Aa Composite (2/20/92)	8.71%	+ .05	+ .12
30-Day Visible Supply ($ Million)	$1,015	- $ 520	+$ 312
Stocks:			
Dow-Jones Averages:			
Industrials	3,280.19	+ 34.22	+390.82
Transportation	1,466.93	+ 60.73	+341.58
Utilities	204.24	- 3.57	- 11.12
65 Stocks	1,190.57	+ 19.44	+157.33
N.Y.S.E. Composite Index	227.46	- .70	+ 27.82
N.Y.S.E. Avg. Daily Vol. for Week (000's)	242,559	+ 33,495	+48,820

*34% Taxable equivalent 10.23%.

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/21/92	Week Ago
Overnight	4.13%	4.38%
1 month	4.19	4.25
3 month	4.28	4.25
6 month	4.38	4.38
1 year	4.75	4.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/21/92)	Currency Per U.S. $	Week Ago
Belgium	33.78	33.35
Canada	1.1841	1.1860
France	5.5891	5.5176
Germany	1.6435	1.6200
Italy	1233.03	1217.03
Japan	128.55	127.45
Mexico	3106.60	3105.20
Netherlands	1.8490	1.8235
South Korea	753.43	749.78
Switzerland	1.4840	1.4885
Taiwan	24.80	24.71
U.K.*	1.7513	1.7743

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (2/21/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.4%	-11.0%

cession. The economy contracted in 1991's second and third quarters (quarter-over-quarter), and the central bank just announced that the GDP fell 0.5 percent in the final quarter, making it three quarterly declines in a row. This is not surprising, given December's dismal economic statistics—in particular, a whopping 3.1 percent drop in industrial output compared with November. Widespread forecasts that the western German economy will expand by an inflation-adjusted 1½ percent this year, based on average wage settlements of 5½ percent and lower interest rates by mid-year, are now in jeopardy—and will probably have to be scaled back.

Pan-European Business Blues

Given the ever-closer linkages of the European economies, slow, or no growth in Germany is contagious. Germany absorbs nearly 19 percent of French exports, 22 percent of Italy's and 14 percent of the United Kingdom's. As the German appetite for imports wanes, everyone else goes on a diet. And, with the Bundesbank committed to maintaining lofty interest rates until such time as an inflation-friendly pattern of wage settlements emerges, Europe finds itself locked into a dilemma—experiencing stagnating business conditions, yet remaining blanketed by painfully lofty interest rates. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	2/19/92	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	271.928	+ 3.882	+25.368
Loans to Depository Inst.	.081	+ .024	- .202
Float	1.130	+ .409	+ .181
Total Reserve Bank Credit	306.897	+ 4.099	+19.885
Treasury Deposits with Federal Reserve Banks	5.874	- .710	- 3.854
Currency in Circulation	302.712	+ 1.306	+17.932
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	269.574	+ 1.161	+15.410
Member Bank Reserves:	2/19/92		
Total Reserves Held	55.604	+ 1.131	+ 6.918
Excess (Deficiency)	1.177	+ .150	- .576
Net Free Reserves	1.110	+ .211	- .491
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (2/10/92)	926.6	+ 15.2	+ 10.4
M2 (2/10/92)	3,476.2	+ 6.6	+ 3.6
M3 (2/10/92)	4,202.2	+ 4.3	+ 1.2
Domestic Nonfinancial Debt (2nd Q'91)	10,735.3	+ 4.6	+ 5.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/21/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.94%	4.04%	4.25%
* Federal Agencies	3.95	4.15	4.55
* Municipal Notes–High Grade (34% Taxable Equivalent)	3.79	3.86	4.16
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	4.25	4.38	4.75

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.95%	Mar.	4.08%
15- 29 days	4.08	Apr.	4.08
30- 59 days	4.13	May	4.08
60- 89 days	4.15	Jun.	4.10
90-179 days	4.19	Jul.	4.13
180-239 days	4.20	Aug.	4.13
240-270 days	4.20		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	4.09%		
90-120 days	4.10	Effective Rate	3.63%

‡ Discount basis. *Subject to availability. † Estimated.

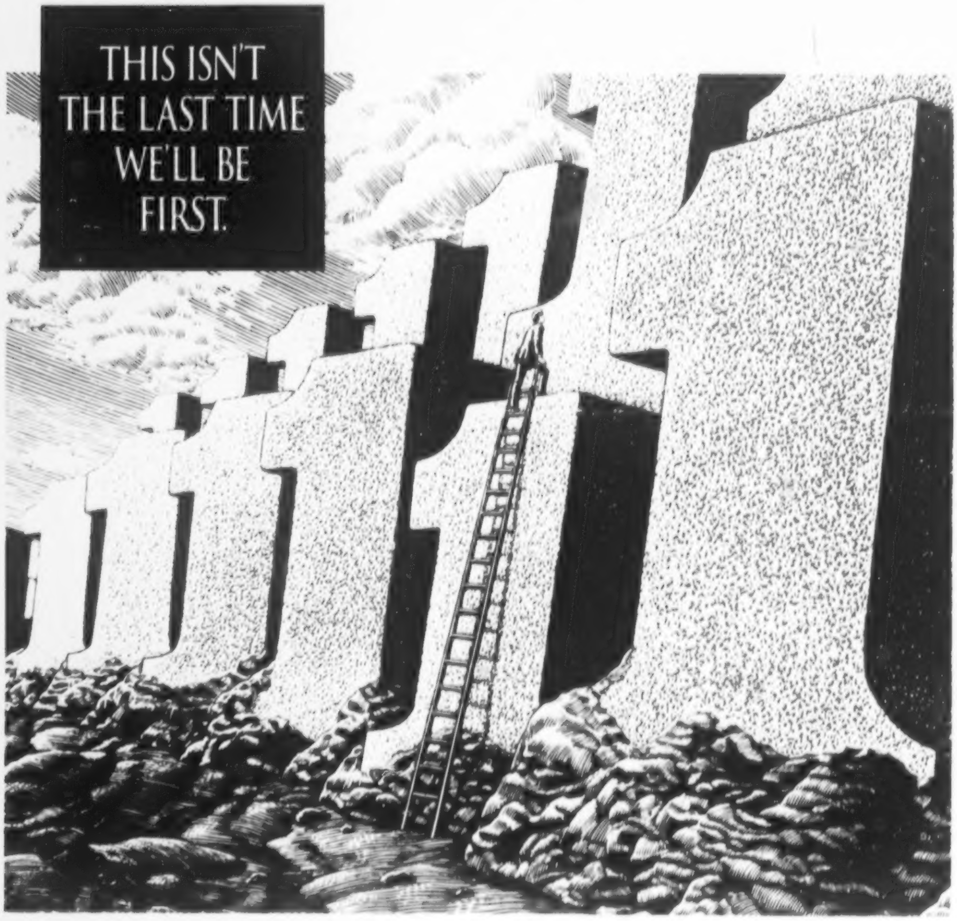
Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	4th Q'91	$ 5,737	$ 5,709	$ 5,558
Gross Domestic Product (1987 Dollars)*	4th Q'91	$ 4,866	$ 4,863	$ 4,855
Percent Change, Annual Rate	4th Q'91	0.3	1.8	- 3.9
Change in Consumer Prices*	Jan '92 n	1.2%	2.4%r	4.8%r
Change in CHEM Cost of Living Index*	Jan '92 n	1.2%	1.2%r	8.4%r
Change in Producer Prices*	Jan '92 n	3.6%	- 1.2%r	- 2.4%
Civilian Employment (Thousands of Persons) †	Jan '92	117,117	116,728	116,977
Unemployment as % of Civilian Labor Force †	Jan '92	7.1%	7.1%	6.2%
Personal Income*	Dec '91	$ 4,923	$ 4,874	$ 4,790
Leading Indicators Composite Index (1967=100) †	Dec '91	144.8	145.2	139.4
Industrial Production Index (1977=100) †	Jan '92 n	106.7	107.6r	106.6
Net Change in Consumer Installment Credit †	Dec '91 n	$ 1.72	- $ 0.17r	- $ 1.31
U.S. Merchandise Trade Balance †	Dec '91 n	$ 5.94	- $ 4.17r	- $ 6.32
Plant and Equipment Expenditures*	1st Q'92	$ 563.3(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Jan '91 n	1,167	1,106r	847
New Construction Expenditures*	Dec '91	$ 407.4	$ 408.4	$ 421.3
Total Business Inventories †	Dec '91 n	$ 817.4	$ 813.9r	$ 825.4r
Total Business Sales †	Dec '91 n	$ 533.5	$ 542.8r	$ 535.1r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Financial Digest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Financial Digest

Volume XXIX, Number 5
Monday, March 9, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Consumer Confidence Blues

With a convincing pickup in business activity awaiting a greater willingness on the part of consumers to open their wallets and purchase such big-ticket items as houses and automobiles, the latest drop in consumer confidence would appear to be a clear setback for the economy. For although home prices have fallen virtually everywhere and mortgage and auto financing costs have dropped decidedly, consumer caution still impedes robust recoveries in these two industries.

According to the Conference Board, consumer confidence plunged to a 17-year low in February. The last time confidence was this low, the country was mired in a deep recession, joblessness was rising rapidly and inflation was quickening to a nearly double-digit pace. In addition, there were frustratingly long lines at the gasoline pumps and the country was in the throes of the Cold War. Now, however, the Cold War is history, energy supplies are plentiful, the rate of consumer price inflation is less than three percent and unemployment is almost four percentage points *lower* than at the end of the 1981-82 recession. Yet, consumer attitudes plumb almost unprecedented depths.

Economics
Department
17/270

The principal reason for this is the glum employment picture. Mounting layoffs occurring throughout the nation at many of its premier corporations are a major depressant on people's confidence. Fearing for one's job is, of course, a valid concern, but the perception appears to be that most of the job losses will be permanent, not temporary as during past business downturns. However, little attention has been given to the fact that many of those who have been laid off are finding alternative jobs in different fields, some working part-time until a better position becomes available and others becoming self-employed. Civilian employment, as measured by the Bureau of Labor Statistics' household survey, which includes persons who are either self-employed or work part-time, has climbed by nearly 315,000 since July 1991. This is in contrast with the payroll employment figures which have risen by only 38,000 jobs during the same period.

Yet the casualties of faltering confidence continue to mount and the housing industry is one of them. Fixed-rate mortgages were as low as 8¼ percent at the beginning of this year, levels not seen since 1977, and adjustable rate mortgages were even lower. Together with fading home prices, this combination has made housing the most affordable it's been in 20 years! There was some impact, to be sure, but not as much as had been expected. For although housing starts rose 5½ percent in January, the fourth consecutive monthly gain, and construction of new homes stood 38 percent above its abysmal January 1991 low point, homebuilding is still well below the level of recent years. For 1991 as a whole, housing starts were barely above the one million unit mark, the lowest annual level in the postwar era and almost 33 percent below the level of construction as recently as three years ago.

Housing Gets Off The Floor

Sales of new and existing homes have also perked up over the past few months, although a forest of "for sale" signs still blankets many neighborhoods. New single-family homes sold rose 13 percent in January month-over-month, to their highest level in two years and are currently 51 percent higher than their January 1991 low point. Purchases of existing single-family houses have grown for three straight months and currently stand 15 percent higher than at the beginning of 1991. However, the housing market gridlock has yet to be broken in many areas, and the trade-up market remains moribund in such key geographic areas as the Northeast and Pacific regions.

Ominously, the staying power of the nascent rebound in the housing market is problematic. Mortgage rates have since backed up to almost nine percent, reflecting the bond markets' negative response to Washington's growing borrowing needs and fears of a pickup in inflation. This has pushed 30-year Treasury bond yields from a mid-January low of around 7.40 percent to nearly eight percent currently.

One positive factor is a reduction in the number of unsold homes. Inventories have fallen from a more than nine-month supply to about 5¾ months in January. The current stock of unsold houses is only slightly higher than in the period immediately following the 1981-82 recession. Thus, while homebuilding should not be a drag on the economy this year, higher mortgage rates and low consumer confidence could well prevent housing activity from experiencing a substantial pickup in 1992.

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Autos Stuck In Low Gear

The outlook for auto sales is even murkier. For starters, descending interest rates have a far more muted impact on auto affordability than in the case of housing. Each one percentage point decline on a four-year, $10,000 auto loan, for example, only trims the monthly payment by a paltry $5. More important is the consumer's perception of the value of the car to be purchased. Although repeated restructurings, retoolings and design and engineering improvements have boosted the quality of Detroit's products, it has apparently come too late for a significant portion of the American public which seems wedded to imported automobiles. Nor have these quality improvements come cheap. Since 1980, new domestic car prices have risen by an average of ten percent annually, a pace more than 50 percent quicker than household income growth. This disparity has clearly pinched the pocketbook: it currently takes almost 24 weeks of the average family's income to buy a new domestic car whereas it took less than 18 weeks of income to purchase a new car in 1980.

With prices moving in the opposite direction of attitudes, it is hardly surprising that auto sales have languished in the six-million unit range.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/19/92)	158,912	- 2,326	- 49,924
New York City (2/26/92)	28,570	+ 784	- 4,902
Commercial Paper (2/26/92)	535,900	+ 9,434	- 33,302

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/19/92)	289,442	+ 1,405	- 30,713
New York City (2/26/92)	50,401	- 256	- 7,667

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/19/92)	1,018,146	- 550	- 46,106
New York City (2/26/92)	162,053	- 1,857	- 16,754

Financial Markets

	Friday 3/6/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.14%	+ .14	- 1.96
180-Day Bills†	4.30	+ .19	- 1.92
Longest Bills†	4.53	+ .32	- 1.75
Recent Issues:			
4⅞s 1/31/94	5.58	+ .32	
6¼s 1/31/97	6.83	+ .24	
7½s 11/15/01	7.47	+ .19	
8s 11/15/21	7.92	+ .10	
Municipals:			
Bond Buyer—20 Bond Index* (3/5/92)	6.71%	- .03	- .35
Blue List Total ($ Million)	$1,698	+ $ 330	+$ 110
30-Day Visible Supply ($ Million)	$7,249	+ $1,431	+$4,283
Total	$8,947	+ $1,761	+$4,393
Corporates:			
Moody's Aa Composite (3/5/92)	8.70%	- .02	- 49
30-Day Visible Supply ($ Million)	$1,540	- $ 50	+$ 275
Stocks:			
Dow-Jones Averages:			
Industrials	3,221.60	- 46.07	+266.39
Transportation	1,413.12	- 15.13	+258.48
Utilities	202.55	- 3.07	- 7.90
65 Stocks	1,163.93	- 15.51	+121.13
N.Y.S.E. Composite Index	223.79	- 4.42	+ 18.84
N.Y.S.E. Avg. Daily Vol. for Week (000's)	[illegible]	- 696	- 31,317

*34% Taxable equivalent 10.17%.

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/6/92	Week Ago
Overnight	4.19%	4.06%
1 month	4.25	4.25
3 month	4.44	4.25
6 month	4.56	4.25
1 year	5.00	4.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/6/92)	Currency Per U.S. $	Week Ago
Belgium	34.20	33.67
Canada	1.1854	1.1819
France	5.6536	5.5654
Germany	1.6640	1.6370
Italy	1249.03	1228.47
Japan	131.55	129.20
Mexico	3058.00	3061.01
Netherlands	1.8720	1.8416
South Korea	753.82	753.53
Switzerland	1.5140	1.4843
Taiwan	25.01	24.81
U.K.*	1.7218	1.7604

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (3/6/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.8%	-11.5%

For 1991 as a whole, only 6.1 million new domestic cars were sold, the lowest level since 1982, and almost 20 percent lower than the 7.5 million cars sold on average in the 1985-90 period. Sales so far this year, running at a six-million unit annual rate, remain in low gear.

Although auto sales are unlikely to upshift anytime soon, there are two factors that could produce a pleasant surprise. For one thing, the average age of the nation's auto fleet is now almost eight years—the highest level in four decades. What is more, the number of passenger cars that are 10 years or older account for more than 30 percent of the total. This should produce a substantial replacement demand once confidence improves. For another, auto inventories have been kept under control, remaining in general alignment with the sluggish sales pace. The stock of new cars was at an 82 day supply at the end of January, ten percent below the January 1991 level, although sales today are no lower than they were a year ago. Even a slight upturn in consumer car buying should provide a boost to production. And, as increased auto production feeds through the rest of the economy many other industries will benefit—boosting sales and profits and, hopefully, staunching the hemorrhage of factory jobs.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/4/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	272.171	+ 1.223	+24.533
Loans to Depository Inst	.059	- .008	- .425
Float	.569	- .028	- .019
Total Reserve Bank Credit	304.545	+ .532	+17.962
Treasury Deposits with Federal Reserve Banks	5.563	+ .424	- 3.629
Currency in Circulation	[illegible]	- .294	+16.205
Gov'ts held for Foreign Acct by F.R. Banks (End-of-Week)	[illegible]	+ 3.130	+17.526

Member Bank Reserves	3/4/92		
Total Reserves Held	55.068	- .535	+ 7.149
Excess (Deficiency)	.964	- .212	- .263
Net Free Reserves	.898	- .205	+ .053

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (2/24/92)	933.8	+ 17.5	+ 11.0
M2 (2/24/92)	3,480.3	+ 5.7	+ 3.6
M3 (2/24/92)	4,195.4	+ 3.8	+ 1.0
Domestic Nonfinancial Debt (3rd Q'91)	11,136.8	+ 5.5	+ 4.7

† Seasonally adjusted

* Seasonally adjusted annual rate
‡ Four-week moving average

New York Money Market

Offering Rates 3/6/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	4.07%	4.18%	4.46%
* Federal Agencies	4.15	4.30	4.70
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.62	4.55	4.55
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	4.35	4.45	4.90

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	4.10%	Apr.	4.17%
15- 29 days	4.13	May	4.17
30- 59 days	4.30	Jun.	4.17
60- 89 days	4.33	Jul.	4.22
90-179 days	4.35	Aug.	4.25
180-239 days	4.35	Sep.	4.25
240-270 days	4.35		

‡ Industrial Paper–Prime			
30- 89 days	4.30%	†Federal Funds Effective Rate	3.63%
90-120 days	4.35		

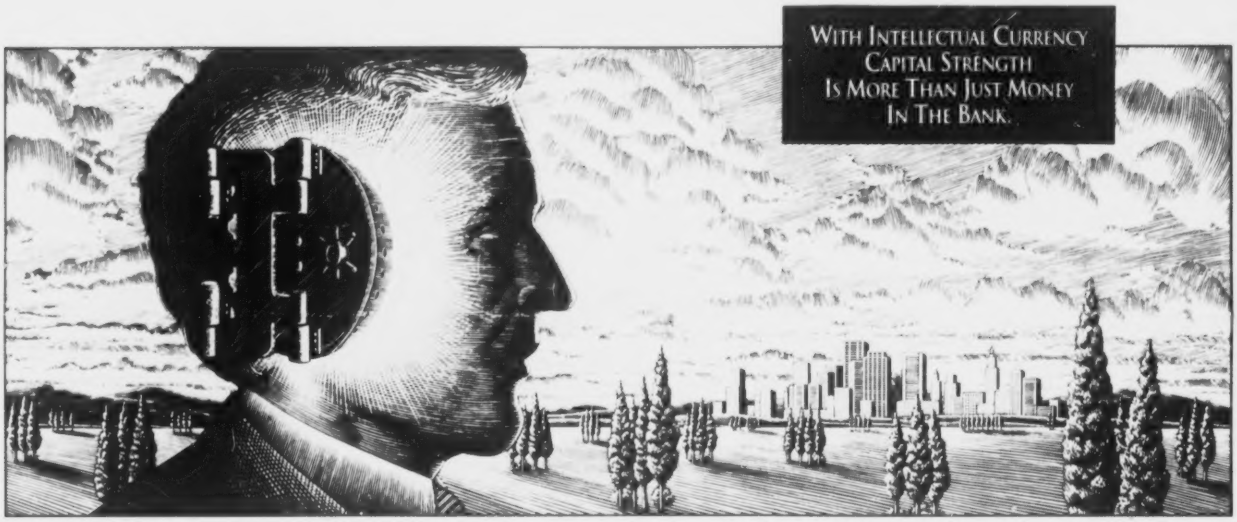
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	4th Q'91	$ 5,737	$ 5,709	$ 5,558
Gross Domestic Product (1987 Dollars)*	4th Q'91	$ 4,866	$ 4,863	$ 4,855
Percent Change, Annual Rate	4th Q'91	0.3	1.8	- 3.9
Change in Consumer Prices*	Jan 92	1.2%	2.4%	4.8%
Change in CHEM Cost of Living Index*	Jan 92	1.2%	1.2%	8.4%
Change in Producer Prices*	Jan 92	[illegible]	- 1.2%	- 2.4%
Civilian Employment (Thousands of Persons) †	Feb 92n	117,043	117,117	116,867
Unemployment as % of Civilian Labor Force †	Feb 92n	7.3%	7.1%	6.5%
Personal Income*	Jan 92n	$ 4,928	$ 4,931r	$ 4,762
Leading Indicators Composite Index (1967=100) †	Jan 92n	146.5	145.2r	138.7
Industrial Production Index (1977=100) †	Jan 92	106.7	107.6	106.6
Net Change in Consumer Installment Credit †	Dec 91	[illegible]	- $ 0.17	- $ 1.31
U.S. Merchandise Trade Balance †	Dec 91	$ 5.94	- $ 4.17	- $ 6.32
Plant and Equipment Expenditures*	1st Q'92	[illegible]	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Jan 92	1,167	1,106	847
New Construction Expenditures*	Jan 92	$ 404.1	$ 398.9r	$ 406.5
Total Business Inventories †	Dec 91	$ 817.8	$ 813.9	$ 825.4
Total Business Sales †	Dec 91	[illegible]	$ 542.8	$ 535.1

*Seasonally adjusted annual rate † Seasonally adjusted n-Newly reported figure r-Revised a-Anticipated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Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Economics
Department
17/270

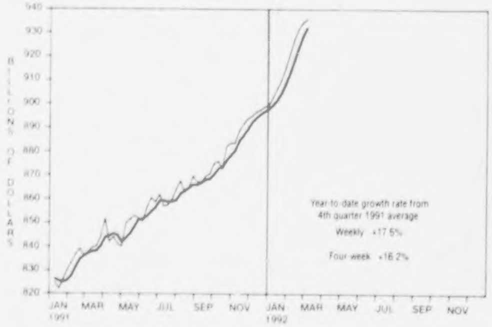
Gathering Momentum

Despite the persistence of such obstacles to robust economic growth as high levels of private and public debt, acres of vacant commercial real estate and feeble consumer confidence, the latest batch of economic statistics has been almost uniformly upbeat, signaling that the "on again, off again" recovery is on again. For notwithstanding the rear guard efforts of the more pessimistic pundits to explain away the firmer economic numbers, the economy is rapidly approaching an inflection point—shifting from the subdued growth of the past three quarters to a more vigorous clip so far this year. And while this holds out the promise of better times for profits-pinched industries and jobless workers, it also has a potentially darker side. It raises the specter of a resumption of inflation pressures and a sustained backup of interest rates. Fortunately, these worries are exaggerated.

With some delay, the repeated easings of monetary policy are starting to bear fruit, encompassing an ever-wider number of sectors. Even the consumer seems to be awakening from his prolonged slumber. Although consumer confidence continues to hover near 17-year lows (Financial Digest—March 9, 1992), a good chunk of the population is apparently saying one thing and doing another. According to the Commerce Department, retail sales posted a solid 1.3 percent advance in February, month-over-month, which, coming on top of a 2.1 percent monthly gain in January, belies the conventional wisdom that households are either too debt-burdened or too glum to step up spending in a meaningful way. So, too, residential builders and manufacturers are shaking off the blahs. Reflecting gains in all regions of the country, housing starts in February vaulted to their highest level in just about two years. Now running at a 1.3 million unit pace, housing starts stand 55 percent above their January 1991 low.

With inventories generally lean across the board, the quickening pace of consumer spending and residential building is rapidly spilling into manufacturing activity. The February survey of the National Association of Purchasing Management indicated that the industrial sector as a whole was expanding once again and, as if on cue, this was soon followed by reports that industrial production rose 0.6 percent in February—the first monthly increase in five months—and that the nationwide industry operating rate rose to 78.2 percent of capacity last month, also the first increase in five months. Perhaps most important for the recovery's prospects was the fact that payroll employment is turning higher, chalking up its biggest monthly gain in February since the spring of 1990.

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (THICK)
VS. WEEKLY FIGURES (THIN)



Sources: Federal Reserve Board, Chemical

Wilting Inflation Pressures

Although it was widely anticipated that the economy would rebound this year, the speed with which it appears to be doing so has rekindled inflation and monetary policy concerns, especially in the bond markets which are already wrestling with a wave of corporate debt refinancings and a river of new Treasury offerings. While credit demands are likely to remain large, inflation and monetary policy worries are premature. At this juncture, there are few visible signs of price pressures, nor should there be: The lid is being kept on wages by cost-conscious corporate America, energy costs are being capped by mild weather and conservation-minded consumers, and industrial commodity prices are softening in line with the slowdown in global economic growth.

Consumer prices, for example, rose by less than three percent during the year ending in February, their slowest rate of rise in five years. Even when the volatile swings of food and energy prices are excluded, progress is unmistakable. "Core" consumer inflation is retreating toward the 3½ percent neighborhood, down from better than 5½ percent a year ago. Producer price pressures have not only receded, they've disap-

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peared entirely. During the year ending last month, these prices barely budged, rising just 0.3 percent for finished producer goods, and actually falling at the intermediate and crude goods levels. And, the Employment Cost Index, which is considered to be the best gauge of price pressures economy-wide, is also signaling a friendly inflation environment. During the fourth quarter, wages and salaries rose at their slowest clip since the last quarter of 1987 while benefit costs advanced at their most subdued pace since the third quarter of the same year. Putting the two together, overall compensation costs rose by only 2½ percent in the fourth quarter of 1991—the best performance, from an inflation perspective, since early 1986.

Less Ease, But No Squeeze

Monetary policy concerns may have somewhat more validity—but they should not be overstated. The principal fear is that the Federal Reserve will scan the brightening business landscape, conclude that it has been too successful in re-energizing the economy, and quickly begin nudging short-term interest rates higher in an effort to keep inflation at bay. And, without question, there has been a substantial degree of monetary ease in recent months—reserves have been generously provided to the banking system, short-term interest rates have tumbled and

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/4/92)	158,566	+ 605	- 47,588
New York City (3/11/92)	27,530	- 616	- 5,276
Commercial Paper (3/11/92)	538,756	+ 5,145	- 29,072

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	**Latest Week**	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (3/4/92)	290,695	+ 1,819	- 30,392
New York City (3/11/92)	50,197	- 565	- 7,413
	Total Loans and Leases Gross Adjusted		
	Latest Week	**Change Since Week Ago**	**Change Since Year Ago**
Nationwide (3/4/92)	1,023,540	+ 9,937	- 36,074
New York City (3/11/92)	162,711	- 2,622	- 15,274

Financial Markets

	Friday 3/20/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.16%	+ .01	- 1.88
180-Day Bills†	4.37	–0–	- 1.77
Longest Bills†	4.71	- .08	- 1.62
Recent Issues:			
4⅞s 1/31/94	5.81	- .02	
6¼s 1/31/97	7.10	–0–	
7½s 11/15/01	7.62	- .04	
8s 11/15/21	8.04	- .01	
Municipals:			
Bond Buyer—20 Bond Index* (3/19/92)	6.79%	+ .03	- .34
Blue List Total ($ Million)	$1,882	- $ 62	+$ 189
30-Day Visible Supply ($ Million)	$4,974	- $1,310	+$1,071
Total	$6,856	- $1,372	+$1,260
Corporates:			
Moody's Aa Composite (3/19/92)	8.75%	- .01	- .48
30-Day Visible Supply ($ Million)	$ 690	+ $ 290	+$ 490
Stocks:			
Dow-Jones Averages:			
Industrials	3,276.39	+ 40.48	+417.48
Transportation	1,433.67	+ 32.89	+361.03
Utilities	206.12	+ 2.82	- 7.73
65 Stocks	1,182.95	+ 18.56	+171.31
N.Y.S.E. Composite Index	226.96	+ 2.66	+ 25.83
N.Y.S.E. Avg. Daily Vol. for Week (000's)	185,597	+ 6,858	+ 6,009

*34% Taxable equivalent 10.29%

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/20/92	Week Ago
Overnight	4.06%	4.00%
1 month	4.38	4.38
3 month	4.38	4.44
6 month	4.56	4.69
1 year	5.13	5.19

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/20/92)	Currency Per U.S. $	Week Ago
Belgium	34.46	34.36
Canada	1.1973	1.1959
France	5.6829	5.6589
Germany	1.6741	1.6684
Italy	1259.60	1251.41
Japan	134.04	133.45
Mexico	3060.00	3060.75
Netherlands	1.8846	1.8784
South Korea	771.41	769.50
Switzerland	1.5196	1.5140
Taiwan	25.22	25.07
U.K.*	1.7092	1.7125

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (3/20/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	-10.7%

the growth of the transactions-related M1 money supply has spurted (see chart). But while further easing initiatives may not be in the cards, an overt tightening of monetary policy anytime soon is both unlikely, and unwarranted.

For one thing, it still remains to be seen whether or not there will be a meaningful follow-through to the recent spate of firmer economic numbers. Last year, there was not; the economy seemed to be poised at the threshold of quicker growth and the opposite occurred; growth slowed last autumn. For another, the persistent bug-a-boos which almost torpedoed last year's nascent rebound—ranging from lofty debt levels to stricter bank lending standards to state and local government financial woes—have yet to disappear. Finally, long-term interest rates are again climbing. At nearly four full percentage points, the spread between 30-year Treasury bond yields and 3-month Treasury bill rates is far wider than it has been immediately following past recessions, a development which may eventually extract a toll from economic growth. Little relief on this score is in sight, and until the bond vigilantes convince themselves that the odds are against a torrid recovery, their behavior may prevent inflation and monetary tightening—but at the expense of checking the business rebound, too. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 3/18/92	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	277.131	+ 2.403	+31.165
Loans to Depository Inst.	110	+ .070	- .112
Float	431	- .648	+ .142
Total Reserve Bank Credit	310.216	+ 2.217	+25.056
Treasury Deposits with Federal Reserve Banks	5.906	+ .661	+ 1.105
Currency in Circulation	303.315	+ 554	+16.582
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	271.786	- 394	+21.015
Member Bank Reserves:	3/18/92		
Total Reserves Held	56.435	+ 1.458	+ 7.813
Excess (Deficiency)	395	- .512	- .612
Net Free Reserves	322	- .525	- .547

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (3/9/92)	939.2	+ 18.2	+ 11.6
M2 (3/9/92)	3,484.2	+ 4.9	+ 3.5
M3 (3/9/92)	4,202.0	+ 2.9	+ 0.9
Domestic Nonfinancial Debt (3rd Q'91)	11,136.8	+ 5.5	+ 4.7

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/20/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	4.05%	4.22%	4.47%
* Federal Agencies	4.25	4.40	4.75
* Municipal Notes–High Grade (34% Taxable Equivalent)	5.00	4.92	5.00
Negotiable Time CDs Chemical	Rates By Arrangement		
* Secondary Market–Prime	4.30	4.50	4.95

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.66%	Apr.	4.20%
15- 29 days	4.20	May	4.18
30- 59 days	4.20	Jun.	4.18
60- 89 days	4.25	Jul.	4.25
90-179 days	4.27	Aug.	4.33
180-239 days	4.35	Sep.	4.32
240-270 days	4.35		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	4.25%		
90-120 days	4.25	Effective Rate	3.63%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	4th Q'91	$ 5,747r	$ 5,709	$ 5,558
Gross Domestic Product (1987 Dollars)*	4th Q'91	$ 4,872r	$ 4,863	$ 4,855
Percent Change, Annual Rate	4th Q'91	0.8r	1.8	- 3.9
Change in Consumer Prices*	Feb '92n	3.6%	1.2%	1.2%
Change in CHEM Cost of Living Index*	Feb '92n	7.2%	1.2%	7.2%
Change in Producer Prices*	Feb '92n	2.4%	- 3.6%	- 8.4%
Civilian Employment (Thousands of Persons) †	Feb '92	117,043	117,117	116,937
Unemployment as % of Civilian Labor Force †	Feb '92	7.3%	7.1%	6.5%
Personal Income*	Jan '92	$ 4,928	$ 4,931	$ 4,762
Leading Indicators Composite Index (1967=100) †	Jan '92	146.5	145.2	138.7
Industrial Production Index (1977=100) †	Feb '92n	107.2	106.6r	105.7
Net Change in Consumer Installment Credit †	Jan '92n	- $ 0.18	- $ 0.73	- $ 2.14
U.S. Merchandise Trade Balance †	Jan '92n	- $ 5.77	- $ 6.00r	- $ 7.38
Plant and Equipment Expenditures*	1st Q'92	$ 563.3(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Feb '92n	1,304	1,190r	1,008
New Construction Expenditures*	Jan '92	$ 404.1	$ 398.9	$ 406.5
Total Business Inventories †	Jan '92n	$ 813.3	$ 816.7r	$ 830.3
Total Business Sales †	Jan '92n	$ 536.1	$ 533.5r	$ 526.9

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIX, Number 7
Monday, April 6, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

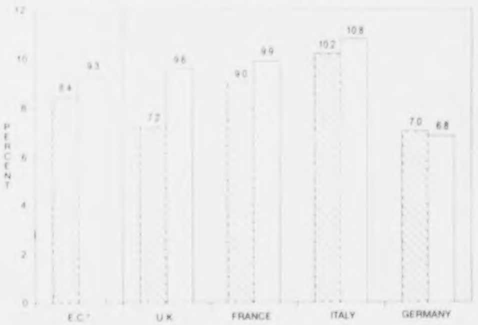
Waiting For Godot

While voter discontent threatens the reelection prospects of countless political incumbents in the upcoming fall elections in this country, a similar situation is already unfolding in Western Europe, where several governments have either just faced, or will soon face their electorates. Not surprisingly, persistent economic malaise throughout a large chunk of the industrial world has provided a fertile breeding ground for voter dissatisfaction. But, whereas the United States has implemented aggressive policy actions designed to spur economic recovery, the policy flexibility of many hard-pressed European governments is limited, shackled by their membership in the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) and their subsequent commitment to exchange rate stability. For many, this means that as long as Germany—the linchpin of the EMS—maintains its high interest rate, inflation-fighting monetary stance, so too must they, notwithstanding spreading economic lethargy and rising joblessness. In this environment, policymakers throughout much of Western Europe have been relegated to the bullpen, awaiting the arrival of a German Godot—namely, a relaxation of the Bundesbank's monetary policy.

To be sure, European policy paralysis is less than total, and such countries as the United Kingdom and France have eased fiscal policy to some extent. However, the steps taken to date have been insufficient to jump-start these sagging economies and nowhere is this more apparent than in the United Kingdom. Buffeted by falling output in five of the past six quarters, a jobless rate quickly closing in on double-digit levels, slumping housing activity and home prices and a mounting toll of business failures, the United Kingdom is now mired in not only a protracted economic downturn, but also an intense one; last year, the U.K. economy experienced its sharpest annual contraction since the 1930s.

With the roots of the current recession running deep, a quick turnaround does not appear to be in the offing. As in the United States, a sizeable overhang of household debt precludes a sharp revival of consumer spending, acres of vacant commercial real estate have yet to be digested, tumbling home prices have sapped confidence and, with the economies of such key overseas markets as Germany and Italy weakening, export prospects are fading. What is more, the interest rate remedy has yet to be applied; quite the contrary, inflation-adjusted interest rates are being kept near the peaks reached during the heady days of economic expansion in order to shore up sterling within the ERM. Against this backdrop, it's a tough time for the sitting government to face elections; the ruling Conservative Party is locked in a neck-and-neck race with the opposition Labor Party on the eve of the April 9 general election.

UNEMPLOYMENT RATE IN SELECTED COUNTRIES:
LATEST MONTH (CLEAR BARS) VS.
SAME MONTH ONE YEAR AGO (SHADED BARS)



Source: IFS
*E.C. consists of Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.

European Blues

In France, voter discontent has already descended upon the governing Socialists. They suffered a thumping electoral setback in regional and local elections in late March, prompting last week's resignation of Prime Minister Edith Cresson. While the reasons for the setback extended beyond economic concerns—the economy should continue to eke out modest gains, sidestepping a full-fledged recession—here, too, the oppressive weight of high real interest rates has reduced the margin between slow growth, and no growth to razor thin levels. Rising unemployment, a potent issue in last month's elections, has soured the public mood and dampened income growth; the jobless rate now stands at 9.9 percent of the workforce. The demand for housing has weakened, swelling the inventory of unsold dwellings and depressing prices, and capital spending is stagnating, deterred by lofty borrowing costs and problematic overseas sales prospects.

Economics
Department
17/270

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Yet, with France savoring one of the lowest inflation rates in the European Community and firmly committed to the stability of the franc relative to the Deutschemark, the French authorities are extremely reluctant to adopt more expansionary economic policies. For one thing, with the spread between short-term French and German interest rates already quite narrow, any further compression of the existing differential might unleash substantial cross-border capital flows, out of French assets and into German ones. For another, while today's policies would seem to consign France to an extended period of subpar growth, it is still believed that the longer-run inflation/competitiveness benefits of "staying the course" outweigh the economic, if not political, costs of a policy U-turn.

Pivotal Germany

At first glance, Germany would seem to be increasingly ripe for a dollop of monetary ease, opening the door for a pan-European decline in interest rates. Reflecting the one-two punch of biting interest rates and rising taxes to finance the eastern German renaissance, the German economy has been shifting into lower gear for months. In fact, for three straight quarters, the economy has contracted. Although it might be argued that the economy appears to be stabilizing at a relatively high level of activity—as evi-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/18/92)	153,522	- 3,132	- 50,601
New York City (3/25/92)	25,681	- 356	- 5,914
Commercial Paper (3/25/92)	541,143	- 2,638	- 22,035

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/18/92)	289,871	+ 600	- [illegible],061
New York City (3/25/92)	49,856	- 360	- 7,444

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/18/92)	1,016,798	- 749	- 36,746
New York City (3/25/92)	163,281	+ 739	- 10,531

Financial Markets

	Friday 4/3/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.05%	- .05	- 1.82
180-Day Bills†	4.16	- .11	- 1.81
Longest Bills†	4.36	- .19	- 1.87
Recent Issues:			
5¾s 3/31/94	5.36	- .30	
6⅞s 3/31/97	6.76	- .19	
7½s 11/15/01	7.41	- .12	
8s 11/15/21	7.88	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (4/2/92)	6.73%	- .04	- .33
Blue List Total ($ Million)	$1,280	- $ 403	- $ 5
30-Day Visible Supply ($ Million)	$3,793	- $ 864	+$1,398
Total	$5,073	- $1,267	+$1,393
Corporates:			
Moody's Aa Composite (4/2/92)	8.68%	- .07	- .47
30-Day Visible Supply ($ Million)	$ 650	+ $ 385	+$ 50
Stocks:			
Dow-Jones Averages:			
Industrials	3,249.11	+ 17.67	+352.32
Transportation	1,348.28	- 31.39	+232.98
Utilities	203.99	+ .75	- 11.12
65 Stocks	1,154.65	- 3.55	+123.00
N.Y.S.E. Composite Index	221.86	- 1.45	+ 16.20
N.Y.S.E. Avg. Daily Vol. for Week (000's)	168,946	- 15,637	- 17,830

*34% Taxable equivalent 10.20%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/3/92	Week Ago
Overnight	4.25%	4.19%
1 month	4.25	4.31
3 month	4.31	4.38
6 month	4.44	4.56
1 year	4.94	5.13

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/3/92)	Currency Per U.S. $	Week Ago
Belgium	33.71	34.11
Canada	1.1909	1.1906
France	5.5410	5.6203
Germany	1.6358	1.6570
Italy	1234.80	1248.47
Japan	133.70	133.75
Mexico	3067.00	3067.00
Netherlands	1.8424	1.8659
South Korea	774.75	759.34
Switzerland	1.4963	1.5115
Taiwan	25.14	25.23
U.K.*	1.7379	1.7239

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (4/3/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.2%	-19.9%

denced by such yardsticks as industry operating rates and an unemployment rate which has run counter to trends elsewhere—this may only be a brief interlude (see chart). Business confidence is retreating, manufacturers are scaling back output and capital spending plans and foreign demand is weakening, due to slower global growth and an erosion of German cost competitiveness.

Nonetheless, while the odds do favor a loosening of monetary policy once price inflation begins to slow and this spring's wage negotiations are completed, this is no sure bet. This is because the European Community agreed late last year to consummate a monetary union, with a single European currency and regional central bank, no later than January 1, 1999—the third stage of Economic and Monetary Union (EMU). At Germany's insistence, strict economic criteria for participation were established (Financial Digest—January 27, 1992); ironically, with German inflation in the 4½ percent neighborhood, the generally recognized anchor of European monetary stability currently fails to meet the tough inflation criterion for EMU participation that it demanded. As a result, the Bundesbank is insistent upon reaching a two percent rate of inflation as soon as possible—seemingly regardless of the domestic, or Europe-wide growth consequences. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/3/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	275.390	+ 1.720	+26.702
Loans to Depository Inst.	160	+ .084	- .089
Float	356	- .201	- .704
Total Reserve Bank Credit	308.744	+ 1.802	+21.859
Treasury Deposits with			
Federal Reserve Banks	5.184	- .539	- 3.168
Currency in Circulation	302.973	+ .056	+16.001
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	271.583	+ 2.229	+28.116
	4/3/92		
Member Bank Reserves:			
Total Reserves Held	56.332	- .070	+ 7.395
Excess (Deficiency)	1.586	+ 1.086	+ .212
Net Free Reserves	1.470	+ 1.043	+ .246
		‡ % Change Since 3 Months Ago*	**‡ % Change Since Year Ago**
Monetary Aggregates †			
M1 (3/23/92)	938.2	+ 18.7	+ 11.6
M2 (3/23/92)	3,467.0	+ 3.9	+ 2.7
M3 (3/23/92)	4,180.4	+ 1.7	+ 0.7
Domestic Nonfinancial Debt (4th Q'91)	11,229.1	+ 5.3	+ 4.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/3/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.96%	4.05%	4.22%
* Federal Agencies	4.05	4.25	4.52
* Municipal Notes-High Grade (34% Taxable Equivalent)	4.70	4.55	4.85
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market-Prime	4.20	4.35	4.75

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.60%	May	4.03%
15- 29 days	4.00	Jun.	4.03
30- 59 days	4.12	Jul.	4.04
60- 89 days	4.15	Aug.	4.10
90-179 days	4.17	Sep.	4.13
180-239 days	4.05	Oct.	4.13
240-270 days	4.05		

‡ Industrial Paper–Prime			
30- 89 days	4.20%	†Federal Funds Effective Rate	3.63%
90-120 days	4.20		

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	4th Q'91	$ 5,740r	$ 5,709	$ 5,558
Gross Domestic Product (1987 Dollars)*	4th Q'91	$ 4,868r	$ 4,863	$ 4,855
Percent Change, Annual Rate	4th Q'91	0.4r	1.8	- 3.9
Change in Consumer Prices*	Feb '92	3.6%	1.2%	1.2%
Change in CHEM Cost of Living Index*	Feb '92	7.2%	1.2%	7.2%
Change in Producer Prices*	Feb '92	2.4%	- 3.6%	- 8.4%
Civilian Employment (Thousands of Persons) †	Mar '92n	117,348	117,043	116,834
Unemployment as % of Civilian Labor Force †	Mar '92n	7.3%	7.3%	6.7%
Personal Income*	Feb '92n	$ 4,972	$ 4,918r	$ 4,761
Leading Indicators Composite Index (1967=100) †	Feb '92n	147.6	146.5r	140.4
Industrial Production Index (1977=100) †	Feb '92	107.2	106.6	105.7
Net Change in Consumer Installment Credit †	Jan '92	$ 0.18	- $ 0.73	- $ 2.14
U.S. Merchandise Trade Balance †	Jan '92	- $ 5.77	- $ 6.00	- $ 7.38
Plant and Equipment Expenditures*	1st Q'92	$ 563.3(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Feb '92	1,304	1,190	1,008
New Construction Expenditures*	Feb '92n	$ 406.2	$ 407.9r	$ 410.1
Total Business Inventories †	Jan '92	$ 813.3	$ 816.7	$ 830.3
Total Business Sales †	Jan '92	$ 536.1	$ 532.6r	$ 526.9

*Seasonally adjusted annual rate. † Seasonally adjusted n-Newly reported figure r-Revised. a-Anticipated.

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Financial Digest

Volume XXIX, Number 8
Monday, April 20, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Economics
Department
17/270

Nikkei Meltdown

One of the more persistent worries plaguing the global financial community in recent years has been the potentially negative impact of an equity price meltdown in Tokyo. Driven to ever-loftier heights in the late 1980s on the back of a relaxed monetary policy and a liquidity river generated by record trade and current account surpluses, Japanese stock prices defied the laws of gravity, and were widely believed to be headed for a tumble. This time the bears got it right, and, since peaking at the end of 1989, the widely-watched Nikkei Index of 225 stocks has shed more than 55 percent of its value. But where the more pessimistic pundits got it wrong was in their prognosis of the likely fallout elsewhere. The ripples emanating from Japan's protracted stock slide have been far from apocalyptic: stock markets virtually everywhere else have marched to the tune of a different drummer—especially in the United States, where the Dow Jones Industrial Average vaulted to an all-time high last week.

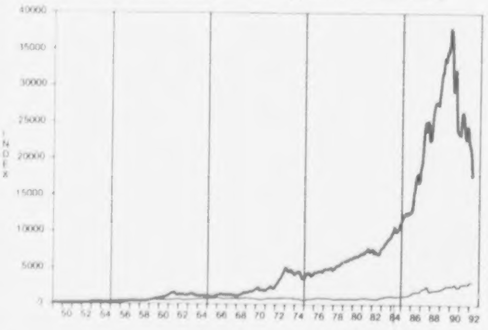
Above all, this reflects the realization that Tokyo's ills stem from the particular problems confronting Japan's economy and financial system, rather than any systemic deficiencies of the global financial network. It also underscores the fact that neither the Japanese government nor institutional investors have pushed the panic button. There is little indication that significant official action will be initiated to prop up the faltering equity market and there are few concrete signs that institutional investors are liquidating their overseas investment portfolios to compensate for losses at home. Indeed, Japanese institutions continue to cautiously add to such investments in the markets they deem ripe for appreciation.

The ongoing deflation of Japan's stock price "bubble" cannot be divorced from the pronounced slowdown of Japan's economy. For in contrast with the United States—where a spate of firmer economic statistics suggests that the economy is picking up (Financial Digest—March 28, 1992)—the Japanese economy has not only cooled decidedly, but by some yardsticks, is experiencing its deepest slump since the first oil "shock" of the early 1970s. Paced by a slide in domestic spending, inflation-adjusted gross national product actually posted a rare contraction in the fourth quarter of last year.

Pluses and Minuses

As in most other industrial countries, Japanese consumers have turned cautious. Retail sales are posting only marginal gains, housing starts have zig-zagged lower over the past year and automobile sales, especially of imported models, have flattened. Nor does the manufacturing sector look any healthier. Inventories continue to pile up from already bloated levels, machinery and construction orders are contracting, and manufacturers are scrambling to trim output. Not surprisingly, an ever-expanding number of firms are planning capital spending cutbacks; many have to, especially when you consider the toll of all this on corporate earnings. By some estimates, company earnings may fall by as much as 15 percent in the current fiscal year, and if they do, it would mark the third consecutive annual drop.

DOW JONES INDUSTRIAL AVERAGE (THIN) VS.
NIKKEI STOCK AVERAGE (THICK) (MONTHLY AVERAGES)



A contracting economy and plunging profitability are hardly the ingredients for rising equity prices—even now, with the much deflated Nikkei Index still trading at a price-earnings multiple in the neighborhood of 35, not to mention the 70 times earnings during the halcyon days of the late 1980s (see chart). Yet, while equity prices are being painfully wrenched back to reality, today's bearishness toward Japan should not be exaggerated. For one thing, although consumer spending has softened, households are far less pressed in Japan than in such countries as the United States and the United Kingdom—employment is at a record high, a comfortable savings buffer exists and incomes are firm. For another, inflation has slowed, and the current trend in wage settlements should prompt further improvement. Finally, global competitiveness remains keen, perhaps too

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much so since Japan's trade and current account surpluses have vaulted over the $10 billion per month level.

High Profile Concerns

Nonetheless, good news about Japan doesn't sell these days, and until the equity price plunge abates, two high-profile and closely intertwined concerns will persist. First, how much trouble does this spell for the Japanese banks, which in recent years have been the liquidity spigot for the global financial system, and, second, will these banks, and other institutional lenders be forced to liquidate large chunks of their vast overseas investment portfolios? For the banks, the news is troubling. Since they are permitted to own up to five percent of the shares of industrial companies, and count toward their capital bases up to 45 percent of unrealized equity price gains, the accelerating stock price plunge has eroded the capital cushion protecting them against loan losses. By itself, this is bad enough.

But equally disturbing is the timing. For the banks now find themselves caught between a rock and a hard place: The rock is the need to comply with the stricter bank capital standards in general adopted by the Bank for International Settlements in 1988—and taking effect in

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/1/92)	151,272	- 1,036	- 49,485
New York City (4/1/92)	25,669	- 12	- 6,490
Commercial Paper (4/1/92)	535,880	- 5,263	- 24,067

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/1/92)	290,068	+ 905	- 30,685
New York City (4/1/92)	49,860	- 115	- 7,649

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/1/92)	1,018,132	+ 2,962	- 29,680
New York City (4/1/92)	168,255	+ 4,784	- 5,914

Financial Markets

	Thursday 4/16/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.74%	+ .01	- 2.17
180-Day Bills†	3.90	+ .04	- 2.10
Longest Bills†	4.20	+ .10	- 2.07
Recent Issues:			
5¾s 3/31/94	5.28	+ .15	
6⅞s 3/31/97	6.75	+ .14	
7½s 11/15/01	7.44	+ .09	
8s 11/15/21	7.93	+ .04	
Municipals:			
Bond Buyer—20 Bond Index* (4/15/92)	6.60%	- .06	- .38
Blue List Total ($ Million)	$ 921	- $ 32	- $ 294
30-Day Visible Supply ($ Million)	$4,713	+ $880	+ $2,114
Total	$5,634	+ $848	+ $1,820
Corporates:			
Moody's Aa Composite (4/15/92)	8.68%	+ .02	- .42
30-Day Visible Supply ($ Million)	$ 760	+ $200	+ $ 500
Stocks:			
Dow-Jones Averages:			
Industrials	3,366.50	+ 141.54	+ 400.91
Transportation	1,396.86	+ 58.30	+ 225.31
Utilities	210.13	+ 7.01	- 2.71
65 Stocks	1,195.42	+ 48.52	+ 136.84
N.Y.S.E. Composite Index	228.90	+ 7.80	+ 18.67
N.Y.S.E. Avg. Daily Vol. for Week (000's)	220,655	- 10,259	+ 12,973

*34% Taxable equivalent 10.00%

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 4/16/92	Week Ago
Overnight	3.94%	3.69%
1 month	4.13	3.88
3 month	4.13	4.00
6 month	4.31	4.06
1 year	4.63	4.44

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/16/92)	Currency Per U.S. $	Week Ago
Belgium	34.12	33.41
Canada	1.1804	1.1884
France	5.6106	5.4915
Germany	1.6595	1.6248
Italy	1247.53	1223.53
Japan	133.35	132.40
Mexico	3062.51	3059.00
Netherlands	1.8670	1.8285
South Korea	780.25	792.39
Switzerland	1.5325	1.4915
Taiwan	25.00	24.91
U.K.*	1.7578	1.7718

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
CHEM TRADE-WEIGHTED DOLLAR (4/16/92) (Adjusted for Inflation)	+0.6%	-20.3%

April 1993—and the hard place is their souring portfolio of global real estate loans against which their capital buffers in particular need to be enhanced. With the equity market in retreat, Japanese banks may have to either load up on subordinated debt or shrink their asset bases. Regardless of the route taken, this raises the bug-a-boo of a global credit "crunch"; fortunately, it occurs at a time when industrial country credit demands are fading in line with the slowing of economic activity.

Perhaps because of this, there is little urgency to lighten carefully-crafted overseas investment portfolios in order to take advantage of much diminished lending opportunities. According to the Securities Dealers Association of Japan, such portfolios actually continue to expand, rather than contract. Net foreign currency bond purchases by Japanese institutions rose by nearly $56 billion last year, 39 percent above 1990 levels; they added another $3½ billion in January of this year. And, why shouldn't they? With Japanese bond yields the lowest among the Group of Seven industrial countries, and Japan again awash in trade-generated liquidity, Japanese institutions will remain strongly attracted to high-yield bonds abroad, notwithstanding—or perhaps even because of—deepening difficulties at home. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	**$ Change Since**	
Reserve Bank Credit	**4/8/92**	**Week Ago**	**Year Ago**
U.S. Gov'ts and Agencies Owned Outright & RPs	273.471	- 1.918	+24.600
Loans to Depository Inst.	.048	- .119	- .126
Float	.497	+ .159	- .391
Total Reserve Bank Credit	304.484	- 4.243	+17.968
Treasury Deposits with Federal Reserve Banks	5.438	+ .253	+ .643
Currency in Circulation	304.458	+ 1.486	+16.261
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	271.960	+ .377	+32.444
Member Bank Reserves:	**4/1/92**		
Total Reserves Held	56.294	- .108	+ 7.357
Excess (Deficiency)	1.626	+ 1.126	+ .252
Net Free Reserves	1.510	+ 1.083	+ .286
		‡ % Change Since	
Monetary Aggregates †		**3 Months Ago***	**Year Ago**
M1 (3/30/92)	935.5	+ 18.2	+ 11.5
M2 (3/30/92)	3,461.4	+ 3.5	+ 2.5
M3 (3/30/92)	4,172.6	+ 1.4	+ 0.5
Domestic Nonfinancial Debt (4th Q'91)	11,229.1	+ 5.3	+ 4.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average

New York Money Market

Offering Rates 4/16/92	**3 Months**	**6 Months**	**1 Year**
‡ U.S. Treasury Bills	3.64%	3.75%	4.02%
* Federal Agencies	3.50	3.90	4.25
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.92	4.39	4.70
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	4.00	4.12	4.50

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.80%	May	3.82%
15- 29 days	3.85	Jun.	3.81
30- 59 days	3.88	Jul.	3.80
60- 89 days	3.88	Aug.	3.83
90-179 days	3.90	Sep.	3.85
180-239 days	3.90	Oct.	3.85
240-270 days	3.90		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	3.96%		
90-120 days	3.97	Effective Rate	3.88%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		**Previous Period**	**Year Ago Period**
Gross Domestic Product (Current Dollars)*	4th Q'91	$ 5,740	$ 5,709	$ 5,558
Gross Domestic Product (1987 Dollars)*	4th Q'91	$ 4,868	$ 4,863	$ 4,855
Percent Change, Annual Rate	4th Q'91	0.4	1.8	- 3.9
Change in Consumer Prices*	Mar '92n	6.0%	3.6%	1.2%
Change in CHEM Cost of Living Index*	Mar '92n	6.0%	7.2%	4.8%
Change in Producer Prices*	Mar '92n	2.4%	2.4%	- 3.6%
Civilian Employment (Thousands of Persons) †	Mar '92	117,348	117,043	116,834
Unemployment as % of Civilian Labor Force †	Mar '92	7.3%	7.3%	6.7%
Personal Income*	Feb '92	$ 4,972	$ 4,918	$ 4,761
Leading Indicators Composite Index (1967=100) †	Feb '92	147.6	146.5	140.4
Industrial Production Index (1977=100) †	Mar '92n	107.2	106.9r	105.0
Net Change in Consumer Installment Credit †	Feb '92n	$ 0.20	- $ 0.05r	- $ 0.20
U.S. Merchandise Trade Balance †	Feb '92n	$ 3.38	- $ 5.95r	- $ 5.50
Plant and Equipment Expenditures*	2nd Q'92n	$ 557.5(a)	$ 545.0(a)	$ 524.6
Private Housing Starts (Thousands of Units)*	Feb '92	1,304	1,190	1,008
New Construction Expenditures*	Feb '92	$ 406.2	$ 407.9	$ 410.1
Total Business Inventories †	Feb '92n	$ 813.0	$ 813.0r	$ 827.6r
Total Business Sales †	Feb '92n	$ 544.8	$ 537.2r	$ 527.8r

*Seasonally adjusted annual rate. † Seasonally adjusted n-Newly reported figure r-Revised a-Anticipated

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MANUFACTURERS HANOVER

Financial Digest

Volume XXIX, Number 9
Monday, May 4, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Trade Deficit In Remission

One of the more positive features of today's economic landscape is the pronounced improvement in the merchandise trade balance. For notwithstanding a year-long slowdown in economic activity throughout large chunks of the industrial world, U.S. exports continue to rise at a buoyant clip while, at the same time, import growth has been restrained due to the muted business recovery here. These trends have transformed the U.S. trade position from one dotted by yawning deficits with most regions of the world, into one in which the likelihood of a global trade surplus in the not-too-distant future is a distinct possibility.

According to the more skeptical pundits it wasn't supposed to happen this way. Stagnation in Europe (Financial Digest—April 6, 1992) threatened to remove the muscle from U.S. export performance. But what the pundits missed was the remarkable resiliency of the East Asian regional economy and the rebirth of numerous Latin American countries. Their growing appetite for everything from cigarettes to computers to commercial jet aircraft has not only deepened the ongoing trade recovery, but has also enabled the United States in 1991 to reclaim its traditional position as the world's number one exporter, a title briefly lost to Germany the year before.

Economics
Department
17/270

The roots of this improvement extend back to the mid-1980s, when the United States, in concert with the other major industrial countries, initiated a policy of deliberately and extensively cheapening the dollar in the foreign exchange markets. Between 1986 and the end of 1991, the dollar's external value was sliced roughly in half compared with the other major currencies, with most of the depreciation occurring during the first two years of this period. It didn't take long before the tonic started to work: The trade deficit stabilized, and then went into remission. Whereas the red-ink topped $160 billion in 1986, by last year this imbalance had dwindled to $66 billion. What is more, the improving trend appears to be gathering momentum. According to the Commerce Department, the monthly trade deficit narrowed to a nine-year low of just $3.4 billion in February, down from nearly $6 billion in January, as exports spiked to an all-time high and imports held steady.

If the improving trade trend was just a one-industry or one-region phenomenon, the trade balance could again widen as quickly as it shrank. But, it isn't. In terms of export composition and destination, trade gains have been across the board. Capital goods exports, the heart of U.S. export capabilities, hit a monthly record of $15.4 billion in February, a hefty 24 percent increase compared with February 1991 levels. Overseas sales of computers, construction equipment, power generating machinery and telecommunications equipment all vaulted higher compared with year-earlier levels, and even the hard-pressed automobile industry shared in the export boom; during the first two months of this year, automotive exports were running nearly 20 percent ahead of same period 1991 levels.

So, too, extensive improvements have been posted with almost all of our major trading partners, albeit with the noteworthy exceptions of Japan and the People's Republic of China. In the case of Japan, although the annual red-ink hemorrhage has seemingly stabilized in the $40 billion plus neighborhood, prospects for further improvement anytime soon seem remote. Japan's economy is in a downdraft, and a sizeable minority of U.S. consumers remain wedded to Japanese automobiles—which account for about three-quarters of the existing bilateral trade imbalance. A more significant exception is the People's Republic of China, whose trade surplus with the United States has risen phoenix-like, on the back of stepped-up sales to the United States of such labor-intensive products as toys, clothing and footwear. The U.S. deficit with China reached $12.9 billion last year—the second largest bilateral imbalance.

Regional Improvements

Nonetheless, exceptions rarely prove the rule, and this case is no different. Even in East Asia, U.S. exporters are flexing their muscles. With the so-called NICs (newly industrialized countries), for example—Hong Kong, South Korea, Taiwan and Singapore—the United States has been making steady progress since 1987, with our deficit shrinking each year since then. Over the past four years, the U.S. has chipped away at its trade deficit with this group, trimming the red ink by more than $20 billion, or about two-thirds. With the exception of Singapore, the U.S. deficit diminished with each of the NICs, especially with Taiwan and Korea—where the bilateral deficit has almost vanished.

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In Europe, not only has the deficit vanished, but it has been supplanted by a large and growing surplus. Whereas the U.S. trade deficit with Western Europe stood at nearly $28 billion in 1986, just five years later the United States posted a $16 billion surplus. Trade surpluses are now being registered with a growing number of European countries—even while their economies sag. Although the United States continues to register a trade deficit with Germany, here, too, large gains have been recorded. Initially in response to the powerful expansion of the western German economy and, more recently, as a result of the eastern German renaissance, U.S. exports to Germany have doubled during the past five years and the trade deficit has been reduced from $14 billion to $4 billion.

Closer to home, trade gains are being posted both north and south of the border. The trade deficit with Canada narrowed by $2.4 billion during the last 12 months, compared with the previous 12, notwithstanding the fact that Canada experienced a deeper recession than did the United States. But it is in Latin America where U.S. export prospects are rapidly building. Emerging from the "lost" decade of the 1980s, these countries are liberalizing their trading and financial relationships and giving

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/15/92)	152,164	- 1,440	- 48,678
New York City (4/22/92)	25,381	- 1,205	- 6,646
Commercial Paper (4/22/92)	549,747	+ 6,373	- 2,709

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/15/92)	288,273	+ 851	- 30,891
New York City (4/22/92)	48,980	- 563	- 7,918

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/15/92)	1,023,640	+14,934	- 29,267
New York City (4/22/92)	162,030	- 5,524	- 11,940

Financial Markets

	Friday 5/1/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.69%	- .08	- 1.92
180-Day Bills†	3.85	- .10	- 1.94
Longest Bills†	4.28	+ .03	- 1.79
Recent Issues:			
5⅜s 4/30/94	5.30	- .06	
6⅞s 3/31/97	6.82	NA	
7½s 11/15/01	7.54	- .01	
8s 11/15/21	8.00	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (4/30/92)	6.69%	- .01	- .26
Blue List Total ($ Million)	$1,413	+ $191	+$ 383
30-Day Visible Supply ($ Million)	$3,319	- $748	+$ 787
Total	$4,732	- $557	+$1,170
Corporates:			
Moody's Aa Composite (4/30/92)	8.73%	- .01	- .32
30-Day Visible Supply ($ Million)	$ 970	- $ 65	+$ 570
Stocks (3:30 p.m.):			
Dow-Jones Averages:			
Industrials	3,337.43	+ 32.87	+398.57
Transportation	1,357.81	+ 7.66	+186.79
Utilities	210.69	+ 4.00	- 0.77
65 Stocks	1,180.18	+ 11.64	+128.09
N.Y.S.E. Composite Index	227.14	+ 2.20	+ 18.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	203,141	- 9,982	+26,538

*34% Taxable equivalent 10.14%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 5/1/92	Week Ago
Overnight	3.88%	3.56%
1 month	3.88	3.88
3 month	4.06	3.94
6 month	4.25	4.13
1 year	4.69	4.63

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/1/92)	Currency Per U.S. $	Week Ago
Belgium	33.87	33.96
Canada	1.1899	1.1857
France	5.5543	5.5766
Germany	1.6485	1.6500
Italy	1237.96	1243.03
Japan	133.05	134.35
Mexico	3075.50	3069.00
Netherlands	1.8529	1.8585
South Korea	794.68	795.39
Switzerland	1.5140	1.5270
Taiwan	24.95	24.99
U.K.*	1.7789	1.7728

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
CHEM TRADE-WEIGHTED DOLLAR (5/1/92) (Adjusted for Inflation)	-0.4%	-19.3%

freer rein to the private sector. As a result, economic growth is resuming throughout much of the region, and U.S. exporters are reaping the benefits. Paced by surging capital goods exports, total U.S. exports to Latin America rose by nearly 18 percent in 1991 year-over-year and the trade balance turned from a $10.1 billion shortfall in 1990 to a $650 million surplus in 1991.

Will It Last?

Indeed, it is precisely the growing importance of Latin America and East Asia in U.S. trading patterns which should sustain our global trade improvements. The dynamic economies of East Asia and the revitalized economies of Latin America have been purchasing an ever-growing share of U.S. exports; together, they now account for nearly 30 percent of total U.S. overseas sales and, perhaps even more important, the lion's share of recent export growth. On the other hand, the share of U.S. exports absorbed by Europe has held generally steady at around 27 percent in recent years. As a result, although economic stagnation in Europe and a pickup in business activity here will ultimately extract a toll on the U.S. trade position, their impact will be muted as long as Latin America and East Asia continue to march to the tune of their own growth drummer.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/29/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	272.850	+ .567	+25.092
Loans to Depository Inst.	.132	+ .028	- .141
Float	.415	- 1.684	- .608
Total Reserve Bank Credit	304.648	- .722	+18.576
Treasury Deposits with Federal Reserve Banks	4.781	- .397	- .965
Currency in Circulation	305.543	- .671	+19.135
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	271.205	- 1.550	+29.758
Member Bank Reserves:	4/29/92		
Total Reserves Held	58.946	+ .145	+ 9.104
Excess (Deficiency)	1.123	- .035	- .075
Net Free Reserves	1.009	- .024	- .048
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (4/20/92)	945.7	+ 15.7	+ 11.5
M2 (4/20/92)	3,461.4	+ 3.0	+ 2.2
M3 (4/20/92)	4,172.6	+ 0.9	+ 0.2
Domestic Nonfinancial Debt (4th Q'91)	11,229.1	+ 5.3	+ 4.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/1/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.65%	3.78%	4.12%
* Federal Agencies	3.87	4.00	4.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.70	4.77	6.44
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	4.03	4.21	4.73

‡ Finance Company Paper–Prime	
5- 14 days	3.80%
15- 29 days	3.83
30- 59 days	3.83
60- 89 days	3.83
90-179 days	3.90
180-239 days	4.00
240-270 days	4.00

‡* Bankers' Acceptances	
Jun.	3.78%
Jul.	3.79
Aug.	3.80
Sep.	3.85
Oct.	3.90
Nov.	3.91

‡ Industrial Paper–Prime	
30- 89 days	3.93%
90-120 days	3.95

†Federal Funds Effective Rate 3:30 p.m. 3.75%

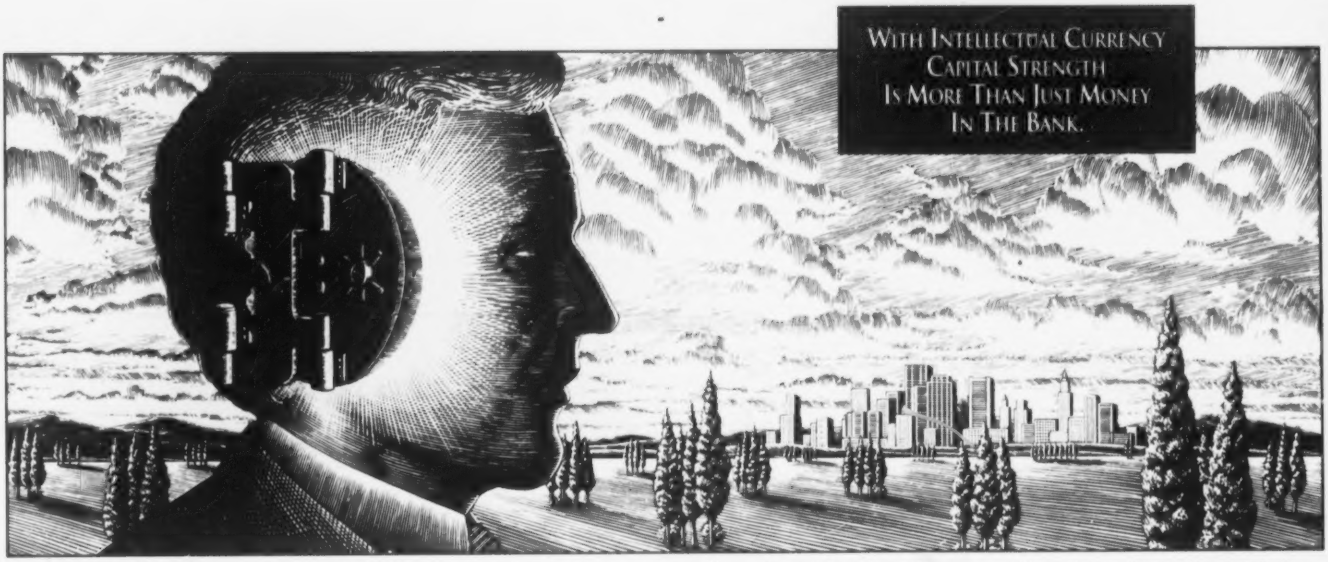
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	1st Q'92n	$ 5,809	$ 5,740	$ 5,589
Gross Domestic Product (1987 Dollars)*	1st Q'92n	$ 4,892	$ 4,868	$ 4,824
Percent Change, Annual Rate	1st Q'92n	2.0	0.4	- 2.5
Change in Consumer Prices*	Mar '92	6.0%	3.6%	1.2%
Change in CHEM Cost of Living Index*	Mar '92	6.0%	7.2%	4.8%
Change in Producer Prices*	Mar '92	2.4%	2.4%	- 3.6%
Civilian Employment (Thousands of Persons) †	Mar '92	117,348	117,043	116,834
Unemployment as % of Civilian Labor Force †	Mar '92	7.3%	7.3%	6.7%
Personal Income*	Mar '92n	$ 4,990	$ 4,963r	$ 4,781
Leading Indicators Composite Index (1967=100) †	Mar '92n	147.9	147.6	141.5
Industrial Production Index (1977=100) †	Mar '92	107.2	106.9	105.0
Net Change in Consumer Installment Credit †	Feb '92	- $ 0.20	- $ 0.05	- $ 0.32
U.S. Merchandise Trade Balance †	Feb '92	- $ 3.38	- $ 5.95	- $ 5.50
Plant and Equipment Expenditures*	2nd Q'92	$ 557.5(a)	$ 545.0(a)	$ 524.6
Private Housing Starts (Thousands of Units)*	Mar '92n	1,365	1,283r	918
New Construction Expenditures*	Mar '92n	$ 419.9	$ 413.3r	$ 401.9
Total Business Inventories †	Feb '92	$ 813.0	$ 813.0	$ 827.6
Total Business Sales †	Feb '92	$ 544.8	$ 537.2	$ 527.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



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Financial Digest

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Monday, May 18, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Economics
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17/270

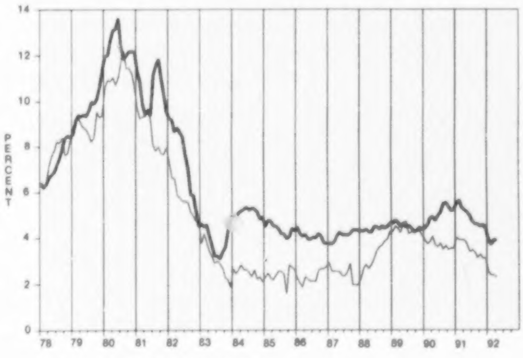
Interest Rate Jitters

With the green shoots of recovery becoming more firmly rooted as spring unfolds, many analysts have turned their attention to the likely inflation and interest rate consequences. For although the inflation rate environment is becalmed at the moment and lackluster money supply growth keeps hopes of a further relaxation of monetary policy alive, the often harsh reality is that quickening economic activity is eventually—though not immediately—accompanied by rising price pressures and interest rates. As if this wasn't enough to worry about, the specter of an unbridled Federal government credit appetite clouds even further any sanguine interest rate expectations, especially in the bond market which has to repeatedly digest a relentless torrent of new Treasury offerings.

But whereas the odds of lower long-term interest rates do indeed lengthen with the release of firmer economic statistics and periodic announcements of forthcoming Treasury debt auctions, too much hand-wringing only encourages dry skin; a better tonic for emerging interest rate jitters is the likely persistence of today's inflation-friendly environment—which will not only retard the ascent of long-term rates but, by enabling the Federal Reserve to maintain its current monetary stance, will corral short-term interest rates for the foreseeable future.

Judging by the most recent inflation rate statistics, the Federal Reserve possesses the flexibility to not only maintain its present policy posture but, if it so desires, to ease further. According to the Labor Department, producer prices edged up by a modest 0.2 percent in April month-over-month, and by a similar amount when the volatile food and energy components are excluded (see chart). This brings the 12-month rise in producer prices for finished goods to just 0.9 percent, a dramatic ebbing of price pressures compared with the 3½ percent gain in producer prices recorded during the year ending April 1991—when the economy began to emerge from recession—not to mention the nearly six percent rate of producer price inflation prevailing in early 1990. Nor is the good news behind us. Snaking back up the production chain, producer prices for intermediate goods have actually dropped slightly during the past year while prices for crude goods have dipped by two percent over the past 12 months.

CPI LESS FOOD & ENERGY (THICK)
VS. PPI LESS FOOD & ENERGY (THIN)
(12-MONTH PERCENT CHANGES)



Source: Bureau of Labor Statistics

Consumer prices, too, have been favorably affected by the economy's softness as well as the vigorous cost-shaving efforts of corporate America. Consumer prices rose by a modest 0.2 percent in April month-over-month, and, despite periodic blips in prices for such items as apparel and entertainment, and the relentless escalation of medical costs, they are up by just a shade more than three percent over the past year. Perhaps more persuasive that today's inflation relief will extend well beyond the initial stages of recovery is the ebbing of employment costs, both wages and benefits. During the year ending in March, wage costs, which account for some 70 percent of employer compensation costs, rose by 3.4 percent, the slowest annual rise since the first quarter of 1988, and far slower than the pace of wage increases registered during the year immediately following the steeper 1973-75 and 1981-82 business downturns. And, some of the steam finally seems to be coming out of the rapid escalation of employer benefit costs. These rose 6.3 percent during the year ending in March 1992—still high, but not quite as rapid as the nearly 7¼ percent rate of rise recorded during the year ending in the first quarter of 1990.

False Readings?

While actual and potential inflation rate developments should be sufficient to keep the monetary policy tightening enthusiasts at bay, so should M2 money supply developments. Virtually every Fed official has, at one time or an-

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other, expressed dismay with the anemic growth of M2 and the potential threat its behavior poses to the sustainability of the current recovery. Sluggish M2 growth was cited as the justification for the latest round of ease initiated in early April. However, M2 growth still refuses to perk up. In fact, this monetary aggregate is now expanding even more slowly than it was a month ago—at a paltry one percent annual clip during the 13 weeks ending April 27 versus a nearly 3½ percent annual rate during the three months ending April 6.

But whether or not M2 trends are actually signalling an increasingly liquidity-starved economy crying out for more monetary ease, or are simply providing the policymakers with false readings is arguable. Consumer flight from low-yielding small certificates of deposits, an M2 component, into non-M2 assets is certainly extracting a heavy toll on M2 growth; staunching these deposit shifts, and re-igniting M2 growth may require higher, rather than lower interest rates. Perhaps the best course of action, however, is watchful neglect. The Fed can certainly take comfort in the more acceptable expansion of the exclusively transactions-related M1 money supply—up at an 11½ percent annual rate over the past 13 weeks, far faster than during the same period a year ago. With the econ-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/29/92)	149,664	- 910	- 48,619
New York City (5/6/92)	27,008	+ 1,066	- 5,520
Commercial Paper (5/6/92)	551,806	+ 4,252	+ 140

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/29/92)	286,597	- 38	- 31,747
New York City (5/6/92)	49,821	+ 368	- 6,801

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/29/92)	1,014,622	- 1,710	- 44,689
New York City (5/6/92)	160,280	- 671	- 13,694

Financial Markets

	Friday 5/15/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.66%	- .03	- 1.88
180-Day Bills†	3.80	- .06	- 1.99
Longest Bills†	4.05	- .18	- 2.07
Recent Issues:			
5⅜s 4/30/94	5.06	- .20	
6⅞s 4/30/97	6.58	- .14	
7½s 5/15/02	7.27	NA	
8s 11/15/21	7.80	- .10	
Municipals:			
Bond Buyer—20 Bond Index* (5/14/92)	6.54%	- .10	- .40
Blue List Total ($ Million)	$1,161	- $ 89	- $ 108
30-Day Visible Supply ($ Million)	$5,247	+ $1,519	+$1,770
Total	$6,408	+ $1,430	+$1,662
Corporates:			
Moody's Aa Composite (5/14/92)	8.61%	- .11	- .57
30-Day Visible Supply ($ Million)	$1,969	+ $ 565	+$1,569
Stocks:			
Dow-Jones Averages:			
Industrials	3,353.08	- 16.33	+446.45
Transportation	1,374.07	- 25.59	+230.56
Utilities	212.01	- 2.00	+ 1.05
65 Stocks	1,188.38	- 11.20	+153.59
N.Y.S.E. Composite Index	226.31	- 2.89	+ 22.16
N.Y.S.E. Avg. Daily Vol. for Week (000's)	176,887	+ 3,222	+ 4,947

*34% Taxable equivalent 9.91%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/15/92	Week Ago
Overnight	3.88%	3.69%
1 month	3.75	3.75
3 month	3.81	3.88
6 month	3.94	4.06
1 year	4.38	4.50

FOREIGN EXCHANGE SPOT RATES New York Opening (5/15/92)	Currency Per U.S. $	Week Ago
Belgium	33.29	33.52
Canada	1.2088	1.1995
France	5.4314	5.4656
Germany	1.6179	1.6320
Italy	1217.72	1228.53
Japan	130.35	132.70
Mexico	3083.51	3082.50
Netherlands	1.8209	1.8350
South Korea	736.97	763.97
Switzerland	1.4845	1.5125
Taiwan	24.66	24.77
U.K.*	1.8174	1.8028

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
CHEM TRADE-WEIGHTED DOLLAR (5/15/92) (Adjusted for Inflation)	-0.1%	-18.8%

omy firming, Fed caution may be the prudent policy course, for it may not be too long before the bond market shifts its gaze from M2 to M1, and questions the appropriateness of sustained, double-digit M1 growth rates.

Washington Excess

If the prospect of an inactive monetary policy is a prescription for stable short-term interest rates, an overly active fiscal policy threatens the stability of long-term interest rates. During the first half of the current fiscal year, the Federal deficit surged to a whopping $197 billion, and the outlook for the entire fiscal year is for the red-ink total to approach $400 billion. Treasury borrowings could top $150 billion during the April-September period, with the bulk of the new debt offerings bunched in the summer months.

As a result of Washington's excesses, there is a renewed movement afoot to implement some type of balanced budget amendment (BBA). But whether or not the current BBA proposal is a step forward or an election year canard is questionable: Lacking clear-cut enforcement provisions and doing little to limit spending, Congress could be cooking up little more than a back door tax increase of Herculean proportions—hardly the recipe for enduring economic prosperity.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	5/13/92	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	275.227	+ 2.608	+25.415
Loans to Depository Inst.	.195	+ .087	- .126
Float	.266	- .661	- .020
Total Reserve Bank Credit	307.302	+ 2.424	+20.135
Treasury Deposits with Federal Reserve Banks	5.012	- .239	+ .081
Currency in Circulation	307.803	+ 1.174	+19.139
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	273.754	+ 3.440	+28.475
Member Bank Reserves:	5/13/92		
Total Reserves Held	57.113	- 1.772	+ 7.675
Excess (Deficiency)	.541	- .695	- .429
Net Free Reserves	.389	- .733	- .395
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (5/4/92)	951.7	+ 13.8	+ 12.1
M2 (5/4/92)	3,471.0	+ 1.9	+ 2.1
M3 (5/4/92)	4,178.8	- 0.3	+ 0.2
Domestic Nonfinancial Debt (4th Q'91)	11,229.1	+ 5.3	+ 4.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/15/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.53%	3.65%	3.87%
* Federal Agencies	3.70	3.80	4.15
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.55	4.70	4.92
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.75	3.90	4.30

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.83%	Jun.	3.66%
15- 29 days	3.78	Jul.	3.66
30- 59 days	3.75	Aug.	3.66
60- 89 days	3.70	Sep.	3.70
90-179 days	3.74	Oct.	3.75
180-239 days	3.83	Nov.	3.75
240-270 days	3.83		

‡ Industrial Paper–Prime			
30- 89 days	3.89%	†Federal Funds	
90-120 days	3.87	Effective Rate	4.00%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	1st Q'92	$ 5,809	$ 5,740	$ 5,589
Gross Domestic Product (1987 Dollars)*	1st Q'92	$ 4,892	$ 4,868	$ 4,824
Percent Change, Annual Rate	1st Q'92	2.0	0.4	- 2.5
Change in Consumer Prices*	Apr '92n	2.4%	6.0%	2.4%
Change in CHEM Cost of Living Index*	Apr '92n	9.6%	6.0%	7.2%
Change in Producer Prices*	Apr '92n	2.4%	2.4%	2.4%
Civilian Employment (Thousands of Persons) †	Apr '92n	117,675	117,348	117,388
Unemployment as % of Civilian Labor Force †	Apr '92n	7.2%	7.3%	6.6%
Personal Income*	Mar '92	$ 4,990	$ 4,963	$ 4,781
Leading Indicators Composite Index (1967=100) †	Mar '92	147.9	147.6	141.5
Industrial Production Index (1977=100) †	Apr '92n	108.2	107.6r	105.5
Net Change in Consumer Installment Credit †	Mar '92n	- $ 1.61	- $ 0.47	- $ 0.32
U.S. Merchandise Trade Balance †	Feb '92	- $ 3.38	- $ 5.95	- $ 5.50
Plant and Equipment Expenditures*	2nd Q'92	$ 557.5(a)	$ 545.0(a)	$ 524.6
Private Housing Starts (Thousands of Units)*	Mar '92	1,365	1,283	918
New Construction Expenditures*	Mar '92	$ 419.9	$ 413.3	$ 401.9
Total Business Inventories †	Mar '92n	$ 816.3	$ 813.2r	$ 818.5r
Total Business Sales †	Mar '92n	$ 547.9	$ 545.4r	$ 523.5r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial Digest

Volume XXIX, Number 11
Monday, June 1, 1992

Analysis of Business Trends Plus Selected Financial Indicators

Economics Department
17/270

Dollar Dog Days

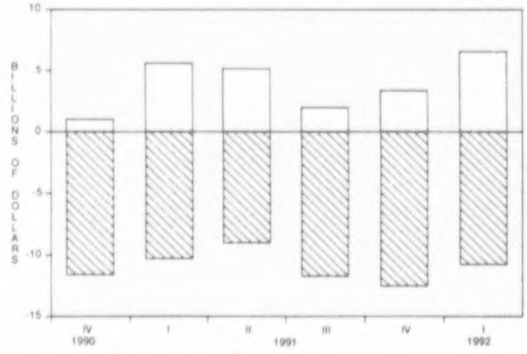
While it may be somewhat premature to mention the lethargy often associated with the "dog days" of summer, it is an apt description of the general behavior of the foreign exchange markets in recent months. Although the dollar experienced a hefty move higher during the first seven weeks of this year—tacking on some ten percent to its external value versus the Deutschemark—since then its steering currents have dissipated and the "greenback" has meandered in a narrow six to eight pfennig trading range, fluctuating in the DM1.59-DM1.67/US$ neighborhood. Nor does any big change appear imminent.

With monetary policies in both the United States and Europe unlikely to be altered as long as the Federal Reserve remains comfortable with the pace of the U.S. business recovery and as long as the Bundesbank remains uncomfortable with Germany's rate of inflation, short-term international interest rate differentials will remain unfriendly toward the dollar. But whereas more attractive yields elsewhere will put a damper on the dollar's upside potential, the downside will also be limited—not only by the darkening economic skies in Europe (Financial Digest—April 6, 1992), but by a mushrooming U.S. trade surplus with the region, which is sorely testing the patience of a growing number of European policymakers who believe that the cheapening of the dollar has gone too far.

However, notwithstanding the current calm, and the best efforts of the Group of Seven (G-7) industrial countries to keep it that way, the dollar will not be locked into a tight trading range forever. In this instance, forever ends when short-term U.S. interest rates start to rise and European interest rates begin their long-awaited descent. Widespread expectations still abound that the dollar will close the year on a decidedly higher note than where it is today—at least against the currencies of Europe. And, although the timing of the anticipated changes in monetary policies, and the subsequent dollar rally, is uncertain, the logic behind it becomes more credible with the release of every firmer U.S. economic statistic and every downbeat German one.

Take, for example, U.S. business conditions. While dollar enthusiasts have been periodically disappointed at the plodding pace of America's recovery, recent surveys of consumer and business confidence as well as trends in retail sales, industrial output and even payroll employment suggest that the business upturn is spreading. What is more, with debt loads lighter, inventories leaner and interest rates lower, the odds do not favor a repeat of last year's economic performance in which the calendar, interest rates and the dollar all wound down in tandem. As a result, the Federal Reserve has apparently decided not to ease monetary policy further, notwithstanding the virtual absence of inflation pressures and the desultory growth of the M2 money supply.

U.S. TRADE BALANCE WITH
WESTERN EUROPE (CLEAR BARS) VS. JAPAN (SHADED BARS)



Source: Commerce Department

Bundesbank Discomfort

While the prospect of quicker U.S. growth fueled the runup of the dollar earlier this year, its future upside potential pivots around the timing and extent of anticipated European interest rate cuts. Although widely expected to take place earlier this year in response to persistent economic lethargy, the edifice of lofty European interest rates is only now starting to crack; in recent weeks, short-term interest rates in both the recession-plagued United Kingdom and stagnation-bound France have been trimmed slightly. However, a more sizeable and sustained descent of European interest rates must await a relaxation of German monetary policy in order to avoid upsetting exchange rate stability within the Exchange Rate Mechanism of the European Monetary System. So far, the Bundesbank has stood fast, citing its discomfort with a rate of inflation approaching five percent, a rapidly expanding money supply and the prospect of excessively generous wage settle-

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ments which would only make the job of controlling inflation that much more difficult.

Several developments are, however, chipping away at the Bundesbank's objections to policy ease. For one thing, Germany's economic malaise will eventually erode existing price pressures; the economy has sputtered for a year and the country's five major research institutes recently stated that this year won't be much better. Although the 4.6 percent rate of consumer price inflation is double what it was two years ago, wholesale price inflation has slowed to less than two percent over the past 12 months. For another, although M3 money growth remains stubbornly quick—and, at a nearly nine percent annualized clip in April, far above the targeted 3½ to 5½ percent range—its behavior is increasingly divorced from economic reality. Rather than reflecting an incipient inflation threat, the strong credit demands which have fueled this growth arise from the downturn-related squeeze on business cash flow and the officially-encouraged investment requirements of eastern Germany. In fact, the same five institutes that noted Germany's deteriorating growth prospects acknowledged precisely this, and urged that the M3 targets be lifted. Finally, the closely-watched wage round has been less than apocalyptic; public sector

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/13/92)	149,859	- 1,904	- 48,072
New York City (5/20/92)	27,100	+ 561	- 4,989
Commercial Paper (5/20/92)	544,444	- 437	- 4,422

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/13/92)	285,762	- 1,632	- 28,887
New York City (5/20/92)	49,230	- 325	- 7,064

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/13/92)	1,008,520	- 1,702	- 38,002
New York City (5/20/92)	161,652	- 1,409	- 11,652

Financial Markets

	Friday 5/29/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.77 %	+ .02	- 1.87
180-Day Bills†	3.94	+ .04	- 1.97
Longest Bills†	4.23	+ .09	- 1.90
Recent Issues:			
5⅛s 5/31/94	5.17	NA	
6⅝s 5/31/97	6.61	NA	
7½s 5/15/02	7.33	- .01	
8s 11/15/21	7.83	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (5/28/92)	6.58%	+ .07	- .39
Blue List Total ($ Million)	$1,445	+ $157	- $ 53
30-Day Visible Supply ($ Million)	$4,429	+ $528	+$1,310
Total	$5,874	+ $685	+$1,257
Corporates:			
Moody's Aa Composite (5/28/92)	8.60%	+ .01	- 1.15
30-Day Visible Supply ($ Million)	$1,529	+ $275	+$1,379
Stocks:			
Dow-Jones Averages:			
Industrials	3,396.88	+ 10.11	+369.38
Transportation	1,370.14	- 6.35	+141.12
Utilities	213.45	+ .57	+ 1.68
65 Stocks	1,197.09	+ .70	+111.42
N.Y.S.E. Composite Index	228.87	+ .67	+ 15.88
N.Y.S.E. Avg. Daily Vol. for Week (000's)	217,399	+ 3,366	+12,784

*34% Taxable equivalent 9.97%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/29/92	Week Ago
Overnight	4.06%	3.94%
1 month	4.00	3.94
3 month	4.06	4.00
6 month	4.19	4.13
1 year	4.69	4.63

FOREIGN EXCHANGE SPOT RATES New York Opening (5/29/92)	Currency Per U.S. $	Week Ago
Belgium	33.06	33.28
Canada	1.2024	1.1543
France	5.3996	5.4383
Germany	1.6090	1.6185
Italy	1211.28	1218.97
Japan	128.15	129.85
Mexico	3107.01	3097.50
Netherlands	1.8095	1.8214
South Korea	799.17	799.07
Switzerland	1.4565	1.4875
Taiwan	24.67	24.71
U.K.*	1.8258	1.8154

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (5/29/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.7 %	-17.1 %

workers settled for a 5.4 percent pay hike—slower than last year's six percent—and private sector settlements are falling in the same ballpark.

Fundamental Flaw

Once the Bundesbank's inflation concerns fade, the door will open for German interest rate cuts and a resumption of the dollar's upswing. If so, any broad-based dollar rally will undoubtedly encompass the yen as well, as Japanese institutions scramble to participate in potentially profitable dollar-buying. Yet, herein lies the rub. Whereas a yawning, and widening U.S. trade surplus with Western Europe lends fundamental justification to an orderly dollar ascent versus the European currencies, the once again widening U.S. trade deficit with Japan does not, and suggests that a similar dollar move versus the yen would be fundamentally flawed (see chart). The red-ink reached nearly $4 billion in March, 11 percent larger than in March 1991, and just about $11 billion in the entire first quarter. And while yen appreciation alone may not remedy the existing trade imbalance, it is fairly obvious that yen depreciation will not help. Since Treasury and Federal Reserve policymakers know this, they will probably be much more inclined to stifle any dollar updraft versus the yen, than against the European currencies.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/27/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	278.881	+ 4.193	+28.259
Loans to Depository Inst.	.174	+ .035	- .129
Float	.093	- .210	- .234
Total Reserve Bank Credit	308.008	+ 3.062	+21.462
Treasury Deposits with			
Federal Reserve Banks	5.438	+ .368	+ .794
Currency in Circulation	309.103	+ 1.257	+19.336
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	275.242	- 1.487	+29.103
Member Bank Reserves:	5/27/92		
Total Reserves Held	56.943	- .215	+ 8.466
Excess (Deficiency)	1.488	+ .854	+ .368
Net Free Reserves	1.331	+ .850	+ .451
		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
Monetary Aggregates †			
M1 (5/18/92)	953.9	+ 11.6	+ 12.2
M2 (5/18/92)	3,468.4	+ 0.3	+ 2.0
M3 (5/18/92)	4,178.6	- 1.7	+ 0.3
Domestic Nonfinancial Debt (4th Q'91)	11,229.1	+ 5.3	+ 4.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/29/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.68%	3.82%	4.05%
* Federal Agencies	3.83	3.95	4.25
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.55	4.62	4.85
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	4.06	4.15	4.60

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.82%	Jun.	3.83%
15- 29 days	3.80	Jul.	3.83
30- 59 days	3.83	Aug.	3.84
60- 89 days	3.83	Sep.	3.88
90-179 days	3.86	Oct.	3.92
180-239 days	3.95	Nov.	3.96
240-270 days	3.95		

‡ Industrial Paper–Prime			
30- 89 days	3.87%	†Federal Funds	
90-120 days	3.90	Effective Rate	3.75%

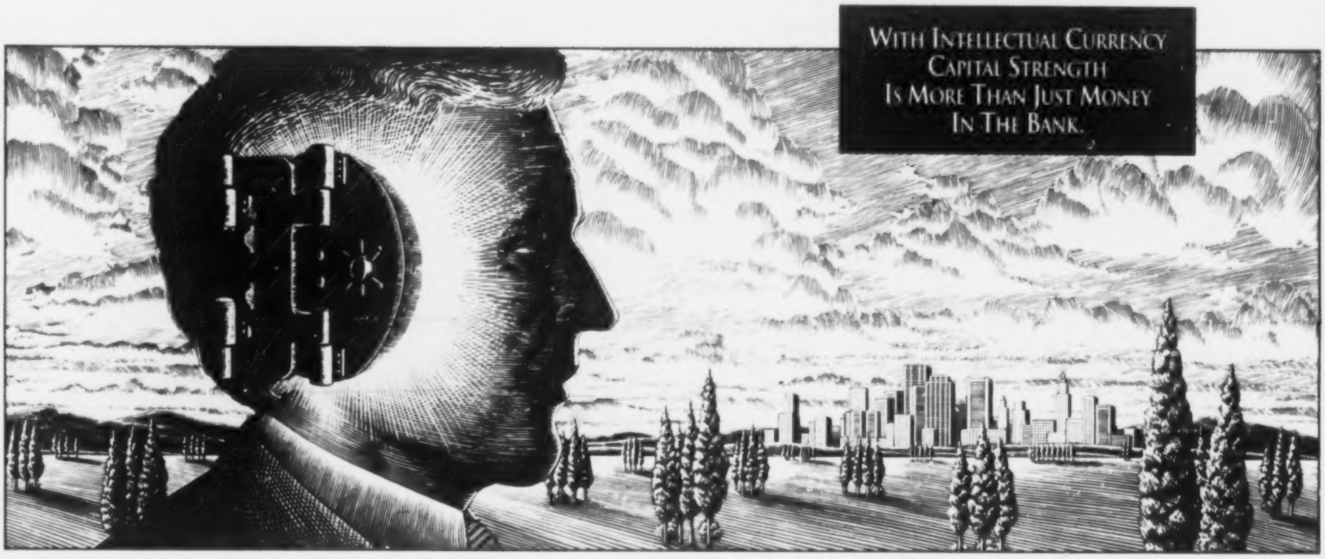
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	1st Q'92	$ 5,818r	$ 5,740	$ 5,589
Gross Domestic Product (1987 Dollars)*	1st Q'92	$ 4,897r	$ 4,868	$ 4,824
Percent Change, Annual Rate	1st Q'92	2.4r	0.4	- 2.5
Change in Consumer Prices*	Apr '92	2.4%	6.0%	2.4%
Change in CHEM Cost of Living Index*	Apr '92	9.6%	6.0%	7.2%
Change in Producer Prices*	Apr '92	2.4%	2.4%	2.4%
Civilian Employment (Thousands of Persons) †	Apr '92	117,675	117,348	117,388
Unemployment as % of Civilian Labor Force †	Apr '92	7.2%	7.3%	6.6%
Personal Income*	Mar '92	$ 4,990	$ 4,963	$ 4,781
Leading Indicators Composite Index (1967=100) †	Mar '92	147.9	147.6	141.5
Industrial Production Index (1977=100) †	Apr '92	108.2	107.6	105.5
Net Change in Consumer Installment Credit †	Mar '92	- $ 1.61	- $ 0.47	- $ 0.32
U.S. Merchandise Trade Balance †	Mar '92n	- $ 5.82	- $ 3.29r	- $ 4.07
Plant and Equipment Expenditures*	2nd Q'92	$ 557.5(a)	$ 545.0(a)	$ 524.6
Private Housing Starts (Thousands of Units)*	Apr '92n	1,115	1,344r	978
New Construction Expenditures*	Mar '92	$ 419.9	$ 413.3	$ 401.9
Total Business Inventories †	Mar '92	$ 816.3	$ 813.2	$ 818.5
Total Business Sales †	Mar '92	$ 547.9	$ 545.4	$ 523.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



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Financial Digest

Volume XXIX, Number 12

Monday, June 15, 1992

Analysis of Business Trends Plus Selected Financial Indicators

Economics Department
17/270

Mexican Renaissance

While much of the industrial world continues to experience lethargic business conditions, one bright spot in the global economic picture is Latin America. With virtually every country in the region initiating fundamental economic reforms, including privatization of subsidy-gobbling state-owned industries, Latin America has returned to the growth track, partially reversing the painful malaise of the so-called "lost decade" of the 1980s. And, with only one or two exceptions, nowhere has progress been more evident than in Mexico. The three-pronged policy combination of privatization, tax reform and trade liberalization is paying handsome dividends in terms of quicker growth, slower inflation and improving government finances. Recognition of these developments, and the likelihood of an eventual North American Free Trade Agreement (NAFTA) encompassing the United States, Canada and Mexico have unleased a wave of foreign investment in Mexico. Although such problems as urban underemployment and rural poverty persist, Mexico is now being touted as a paragon of reform virtue, a role model for the countries of Eastern Europe and elsewhere seeking to shed the legacy of state-sponsored stagnation.

As the reform process has accelerated, so, too, has Mexico's economic rebound. According to the Bank of Mexico, inflation-adjusted gross domestic product growth averaged nearly four percent annually during the past three years, far above the one percent average annual growth rate registered during the external debt-plagued 1981-88 period. In one sense, the resumption of faster economic growth simply picks up where the rapid six and seven percent growth rates of the 1960s and 1970s left off. But there the similarity ends. Whereas the rapid growth of earlier decades initially centered around the establishment of a heavily subsidized industrial structure largely insulated from the winds of international competition, followed by the official sanctioning of a consumption boom bought and paid for by increasing amounts of external debt—which eventually peaked at the punishingly lofty level of nearly $110 billion in 1987—this time around the private sector is leading the economy's expansion while the role of the state dwindles.

To be sure, the government has sought to ensure just such a result by opening formerly exclusive preserves of the public sector to private interests and, through tax reform and subsidy elimination, weaning private industry away from its dependence on government largesse. Although the privatization of telecommunications and banking, for example, has received widespread publicity, these industries are only two of many; whereas the government had owned nearly 1,200 firms at the end of 1982, this number had been pared to under 260 by mid-1991. What is more, with subsidies cut and tariffs slashed, private firms had no other option but to enhance efficiency or cease operations. So far, the private sector has responded to the emerging opportunities with gusto; gross fixed investment, the motor powering recent growth, has been soaring at "real" double-digit rates while construction activity in such areas as industrial and tourism infrastructure has expanded at similar speeds.

Policy Prudence

Lying at the heart of today's investment boom has been an unswerving effort to create a stable climate for making business decisions, and priority number one has been lowering the rate of inflation—which had been advancing at a nearly 180 percent year-over-year pace as recently as early 1988. Correctly deciding that triple-digit rates of inflation were anathema to sustained growth, Mexican policymakers commenced the process of putting the government's financial house in order and reining in the torrid growth of the money supply. On the budget front, this has meant transforming a chronic budget deficit equivalent to nearly ten percent of gross domestic product in the early 1980s into what could be Mexico's first ever budget surplus in the current calendar year—notwithstanding increased spending on education and a variety of social programs.

Although proceeds from privatization contributed significantly to the higher revenues which have produced the brighter fiscal picture, so, too, has long-overdue tax reform. Despite lower rates for both individuals and businesses, tax collections have vaulted higher due to fewer loopholes, a broadened tax base and vibrant business conditions. In fact, these same robust business conditions have complicated the cen-

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tral bank's efforts to rein in the money supply. With private borrowing on the upswing, and a river of foreign capital flowing into the country—nearly $21 billion since the beginning of 1989—progress in staunching rapid money growth has been grudging. Nonetheless, inflation has continued to slow, and is currently running at about one percent a month, making the goal of a single-digit annual inflation rate realizable within the next year.

Trade Balance Concerns

If there is a growing cause for concern, it is the dramatic widening of the trade and current account deficits which has accompanied Mexico's renaissance. Quicker growth and trade liberalization have produced a surge in imports which exports have simply been unable to keep pace with. Nor has it helped that the United States, which absorbs over 80 percent of Mexico's exports, has been experiencing lackluster growth for years. Mexico's trade deficit more than tripled last year, widening from $3 billion in 1990 to $11.1 billion in 1991. This, in turn, pushed the current account deficit to $13.3 billion last year, the biggest gap since 1981, the year prior to the onset of the external debt "crisis".

However, notwithstanding the naysayers' fears, the implications of trade trends today are light-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/27/92)	148,755	- 752	- 47,973
New York City (6/3/92)	27,163	+ 131	- 5,114
Commercial Paper (6/3/92)	539,486	+ 107	- 3,333

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/27/92)	283,804	- 1,286	- 28,550
New York City (6/3/92)	49,289	- 101	- 6,586

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/27/92)	999,140	- 4,561	- 42,395
New York City (6/3/92)	159,811	- 183	- 13,898

Financial Markets

	Friday 6/12/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.73%	- .01	- 1.99
180-Day Bills†	3.85	- .07	- 2.17
Longest Bills†	4.11	- .08	- 2.22
Recent Issues:			
5⅛s 5/31/94	5.02	- .08	
6¾s 5/31/97	6.48	- .07	
7½s 5/15/02	7.28	- .02	
8s 11/15/21	7.85	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (6/11/92)	6.52%	- .05	- .67
Blue List Total ($ Million)	$1,413	- $ 6	- $161
30-Day Visible Supply ($ Million)	$3,726	- $1,877	+ $571
Total	$5,139	- $1,883	+ $410
Corporates:			
Moody's Aa Composite (6/11/92)	8.57%	- .01	- .75
30-Day Visible Supply ($ Million)	$ 625	- $ 769	+ $425
Stocks:			
Dow-Jones Averages:			
Industrials	3,354.36	- 44.33	+353.91
Transportation	1,346.23	- 41.66	+115.09
Utilities	214.07	+ 2.69	+ 3.87
65 Stocks	1,182.93	- 17.62	+103.26
N.Y.S.E. Composite Index	225.51	- 2.37	+ 16.17
N.Y.S.E. Avg. Daily Vol. for Week (000's)	195,564	- 33,325	+41.283

*34% Taxable equivalent 9.88%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/12/92	Week Ago
Overnight	3.75%	3.88%
1 month	3.94	4.00
3 month	4.00	4.06
6 month	4.19	4.09
1 year	4.63	4.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/12/92)	Currency Per U.S. $	Week Ago
Belgium	32.39	32.88
Canada	1.1929	1.1973
France	5.2979	5.4120
Germany	1.5725	1.5995
Italy	1190.78	1208.50
Japan	126.60	127.50
Mexico	3117.75	3113.75
Netherlands	1.7725	1.8015
South Korea	803.56	801.67
Switzerland	1.4270	1.4645
Taiwan	24.46	24.67
U.K.*	1.8535	1.8245

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
CHEM TRADE-WEIGHTED DOLLAR (6/12/92) (Adjusted for Inflation)	-0.4%	-17.1%

years away from those of a decade ago. The fact is that capital goods are among the fastest growing import items; these are needed to establish new industries and modernize old ones, a task made more urgent with the approach of NAFTA. Of the $7 billion increase in imports last year, nearly one third were capital goods and only eight percent were consumer goods; the rest were intermediate goods. In fact, rather than enjoying a short-lived consumption boom, Mexico's external accounts bear a striking resemblance to those of fast-growing Spain and Portugal, where widening external deficits have accompanied the sweeping modernization of everything from factories to farms to telecommunications, part and parcel of their getting ready to meet head-on the competition from other, richer European Community members.

And, for reasons similar to those of Spain and Portugal in carefully managing their exchange rates, a hefty maxi-devaluation of the Mexican peso seems unlikely and unnecessary. Not only would it compromise the government's inflation rate objectives but, perhaps more important, it would lift the cost of precisely those imports on which Mexico's competitive future depends. Of course, one should never say never but, with $17½ billion in foreign exchange reserves, never seems a long way away.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	6/10/92	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	280.223	+ 1.276	+26.272
Loans to Depository Inst.	.133	- .037	- .215
Float	.170	- .336	- .095
Total Reserve Bank Credit	309.928	+ 1.193	+18.783
Treasury Deposits with Federal Reserve Banks	4.916	- .623	- .242
Currency in Circulation	310.270	+ .340	+19.282
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	276.678	- .941	+28.981
Member Bank Reserves:	6/10/92		
Total Reserves Held	57.301	+ .386	+ 7.154
Excess (Deficiency)	.482	- 1.012	- .254
Net Free Reserves	.330	- 1.007	- .132
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (6/1/92)	958.6	+ 9.8	+ 12.0
M2 (6/1/92)	3,466.2	- 1.0	+ 1.8
M3 (6/1/92)	4,162.0	- 2.5	+ 0.1
Domestic Nonfinancial Debt (4th Q'91)	11,229.1	+ 5.3	+ 4.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/12/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.63%	3.73%	3.93%
* Federal Agencies	3.83	3.90	4.15
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.24	4.24	4.77
Negotiable Time CDs Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.95	4.00	4.35

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.75%	Jul.	3.77%
15- 29 days	3.82	Aug.	3.77
30- 59 days	3.83	Sep.	3.79
60- 89 days	3.83	Oct.	3.82
90-179 days	3.86	Nov.	3.84
180-239 days	3.95	Dec.	3.85
240-270 days	3.95		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	3.83%		
90-120 days	3.83	Effective Rate	3.63%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	1st Q'92	$ 5,818	$ 5,740	$ 5,589
Gross Domestic Product (1987 Dollars)*	1st Q'92	$ 4,897	$ 4,868	$ 4,824
Percent Change, Annual Rate	1st Q'92	2.4	0.4	- 2.5
Change in Consumer Prices*	May '92n	1.2%	2.4%	2.4%
Change in CHEM Cost of Living Index*	May '92n	1.2%	1.2%r	2.4%
Change in Producer Prices*	May '92n	4.8%	2.4%	2.4%
Civilian Employment (Thousands of Persons) †	May '92n	117,656	117,675	116,730
Unemployment as % of Civilian Labor Force †	May '92n	7.5%	7.2%	6.8%
Personal Income*	Apr '92n	$ 4,990	$ 4,988r	$ 4,792
Leading Indicators Composite Index (1967=100) †	Apr '92n	148.9	148.3r	141.9
Industrial Production Index (1977=100) †	Apr '92	108.2	107.6	105.5
Net Change in Consumer Installment Credit †	Apr '92n	- $ 3.82	- $ 0.99r	- $ 1.18
U.S. Merchandise Trade Balance †	Mar '92	- $ 5.82	- $ 3.29	- $ 4.07
Plant and Equipment Expenditures*	3rd Q'92n	$ 557.5(a)	$ 558.5(a)	$ 527.9
Private Housing Starts (Thousands of Units)*	Apr '92	1,115	1,344	978
New Construction Expenditures*	Apr '92n	$ 418.8	$ 420.0r	$ 407.0
Total Business Inventories †	Apr '92n	$ 816.1	$ 815.7r	$ 817.9r
Total Business Sales †	Apr '92n	$ 548.0	$ 548.9r	$ 532.8r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial Digest

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Analysis of
Business
Trends Plus
Selected
Financial
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Economics
Department
17/270

Whiff Of Inflation?

Although today's business recovery is admittedly lackluster, a growing minority of financial market participants is detecting a whiff of inflation in the economic winds. For notwithstanding the virtual evaporation of producer price inflation and the muted pace of consumer price increases (Financial Digest—May 18, 1992), policymakers and investors are turning a wary eye toward the rise in industrial commodity prices, the escalation of oil prices, the crop damaging effects of drought in the Midwest and the torrid growth of bank reserves. While these developments have yet to reach a critical price-boosting mass, there are no guarantees that they won't.

For the near term, however, the odds still favor the view that today's inflation-friendly environment will persist. Not only has a slack labor market blunted wage pressures and a lethargic economy loosened industry operating rates but consumers and businesses alike are in a mindset to throttle the inflation threat. With consumers increasingly patronizing such retailing discounters as Wal-Mart and Home Depot the ripple effects are washing up on a growing number of manufacturers who are insisting on supplier price concessions—or telling them to take their business elsewhere.

Judging by the most recent price statistics, the likelihood of accelerating inflation seems slim. According to the Labor Department, consumer prices advanced by a paltry 0.1 percent in May, bringing the rise over the past year to 3.1 percent, or less than half the rate of rise being posted as recently as late 1990. Producer price trends last month were seemingly more menacing. These prices rose 0.4 percent in May, the sharpest monthly gain since October 1990. However, with most of the increase attributable to a spurt in tobacco prices and, to a smaller extent, aircraft prices, any inflation qualms were short-lived. Even with the aberrant May gain factored in, producer prices for finished goods have barely budged over the past year.

Some Negatives

The differences in inflation opinions stem not from these numbers, which would hardly stir even the most bearish inflation watcher, but from what comes next. Some concern has centered around the rise in industrial commodity prices, one of the most sensitive barometers of price pressures. After reaching their most recent low in early February, these prices have since risen by better than eight percent, pushed higher by double-digit price increases for such items as tin, zinc and cotton. Although the ascent of raw industrial commodity prices is far more subdued during this recovery than in the past, the true test may be yet to come. Only now is a sustained business upswing in progress and commodity prices are rising true to form. What is more, with inventories decidedly leaner throughout the production chain this time around than during the initial stages of past recoveries, the breathing room between any spending jump and a pickup in the demand for, and prices of, crude and intermediate goods may actually be thinner than in the past.

Nor is the behavior of oil prices and, potentially, food prices helping matters. Although it had almost bordered on conventional wisdom outside the energy industry that oil prices would trend lower this year, they have headed in the opposite direction, rising by 20 percent since December—and the demands associated with the summer driving season are only now taking shape. So, too, drought in the nation's grain belt has darkened the food price outlook. Illinois in May experienced its second driest month in weather-record history causing extreme damage to crops across the state; the governors of Wisconsin, Iowa and Nebraska are contemplating disaster declarations and dry conditions extend west into the Dakotas and east into Ohio. Of course weather patterns could change, but they aren't expected to anytime soon.

Rising food, energy and industrial commodity prices could, however, be temporary blips. What really provides inflation worriers with ammunition is the potential impact of the torrid growth of bank reserves which has accompanied Federal Reserve efforts to jump-start the economy. The argument that M-2 money supply growth is too anemic to support a sustained recovery, not to mention an acceleration of inflation, simply diverts attention from the real issue. With total bank reserves expanding at an annual rate in excess of 15 percent this year and the transactions-related M-1 money supply now growing at a nearly 14 percent annualized clip,

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a volatile mix is brewing which could ultimately produce an explosion of bank credit and liquidity—the all-too-common ingredients for an inflation-wracked recovery.

Split Personality

While the negatives in the inflation outlook should not be ignored, neither should the array of powerful inflation-dampening influences. These range from such factors as spare industrial capacity and rising labor productivity to an acute case of cost consciousness on the part of consumers and businesses—changing the face of domestic retailing and putting starch in the backbones of industrial purchasing managers. Take, for example, industry operating rates. Reflecting the slow recovery, they generally hover below the 80 percent mark, ensuring plenty of room for increased output before triggering production bottlenecks and rising prices. At the same time, however, the business upturn has been sufficiently pronounced to boost productivity. For all nonfarm business, labor productivity jumped 2.6 percent in the first quarter compared with quarter-earlier levels; since this gain outran a 2.2 percent quarterly hike in compensation costs, labor costs per unit of output—the key determinant of cost pressures—fell

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/10/92)	147,971	- 924	- 47,469
New York City (6/17/92)	25,867	- 946	- 5,624
Commercial Paper (6/17/92)	547,483	+ 6,101	+ 712

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/10/92)	281,233	- 2,815	- 28,229
New York City (6/17/92)	48,938	+ 364	- 7,046

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/10/92)	1,003,638	- 101	- 33,768
New York City (6/17/92)	161,068	+ 1,880	- 11,988

Financial Markets

	Friday 6/26/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.70%	-0-	- 1.98
180-Day Bills†	3.82	- .04	- 2.10
Longest Bills†	4.10	- .03	- 2.20
Recent Issues:			
5s 6/30/94 (When Issued)	4.88	- .10	
6⅜s 6/30/97 (When Issued)	6.33	- .09	
7½s 5/15/02	7.14	- .09	
8s 11/15/21	7.78	- .05	
Municipals:			
Bond Buyer—20 Bond Index* (6/25/92)	6.42%	- .04	- .71
Blue List Total ($ Million)	$1,269	+ $ 4	- $ 125
30-Day Visible Supply ($ Million)	$3,460	- $341	+$2,055
Total	$4,729	- $337	+$1,930
Corporates:			
Moody's Aa Composite (6/25/92)	8.53%	-0-	- .77
30-Day Visible Supply ($ Million)	$ 550	- $625	+$ 175
Stocks:			
Dow-Jones Averages:			
Industrials	3,282.41	- 2.94	+375.66
Transportation	1,277.65	- 25.79	+124.43
Utilities	209.69	- 3.82	+ 12.88
65 Stocks	1,146.88	- 10.73	+115.96
N.Y.S.E. Composite Index	221.68	- .28	+ 18.51
N.Y.S.E. Avg. Daily Vol. for Week (000's)	215,559	- 18,265	+55,569

*34% Taxable equivalent 9.73%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/26/92	Week Ago
Overnight	3.88%	3.75%
1 month	3.88	3.75
3 month	3.94	3.81
6 month	4.06	3.94
1 year	4.38	4.38

FOREIGN EXCHANGE SPOT RATES New York Opening (6/26/92)	Currency Per U.S. $	Week Ago
Belgium	31.26	32.37
Canada	1.1920	1.1979
France	5.1906	5.3016
Germany	1.5435	1.5750
Italy	1166.03	1189.21
Japan	125.80	127.09
Mexico	3117.51	3119.01
Netherlands	1.7390	1.7720
South Korea	790.00	805.75
Switzerland	1.3855	1.4220
Taiwan	24.43	24.42
U.K.*	1.8894	1.8583

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (6/26/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.1%	-17.8%

slightly in the first quarter, the first time this has happened since the mid-1980s.

The drop in unit labor costs couldn't have come at a more propitious time for corporate America. Perhaps the biggest change in the inflation environment is in the defiant attitude of consumers toward higher prices. With job security increasingly problematic and income growth slowing, cost-conscious consumers are embracing retailing discounters with unabashed enthusiasm. Discount stores now account for more than 40 percent of general merchandise retail sales and nearly one-third of apparel sales. Faced with a non-stop loss of market share in recent years, higher-priced retailers are scrambling to bolt down costs and hold the line on prices. And this message has not gone unnoticed by manufacturers, with such corporate giants as General Motors insisting that suppliers trim prices or look for business elsewhere. In this environment, inflation is being forced to transfigure itself, exhibiting an unusual split personality. Capped at the finished goods level and outwardly placid, the consumer reaps the benefits; alive and kicking at the raw materials level, inflation inwardly boils, and the middleman takes it on the chin. ▨

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	6/24/92	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	281.964	+ 2.143	+28.250
Loans to Depository Inst.	.224	+ .072	- .141
Float	.468	+ .085	+ .355
Total Reserve Bank Credit	312.594	+ 2.646	+21.384
Treasury Deposits with Federal Reserve Banks	8.136	+ 1.479	+ 2.391
Currency in Circulation	310.125	- .327	+19.570
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	279.902	+ 1.137	+35.987
Member Bank Reserves:	6/24/92		
Total Reserves Held	49.510	+ .773	- .881
Excess (Deficiency)	1.162	+ .684	- .120
Net Free Reserves	.974	+ .648	- .002
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (6/15/92)	953.1	+ 7.1	+ 11.7
M2 (6/15/92)	3,464.9	- 1.6	+ 1.6
M3 (6/15/92)	4,169.8	- 2.7	-0-
Domestic Nonfinancial Debt (4th Q'91)	11,229.1	+ 5.3	+ 4.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/26/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.63%	3.70%	3.93%
* Federal Agencies	3.80	3.82	4.10
* Municipal Notes–High Grade (34% Taxable Equivalent)	3.94	4.24	4.55
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.60	3.75	4.05

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.78%	Jul.	3.73%
15- 29 days	3.78	Aug.	3.73
30- 59 days	3.78	Sep.	3.75
60- 89 days	3.78	Oct.	3.75
90-179 days	3.79	Nov.	3.78
180-239 days	3.86	Dec.	3.78
240-270 days	3.88		

‡ Industrial Paper–Prime			
30- 89 days	3.87%	†Federal Funds	
90-120 days	3.87	Effective Rate	3.69%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	1st Q'92	$ 5,821 r	$ 5,740	$ 5,589
Gross Domestic Product (1987 Dollars)*	1st Q'92	$ 4,901 r	$ 4,868	$ 4,824
Percent Change, Annual Rate	1st Q'92	2.7 r	0.4	- 2.5
Change in Consumer Prices*	May '92	1.2%	2.4%	2.4%
Change in CHEM Cost of Living Index*	May '92	1.2%	1.2%	2.4%
Change in Producer Prices*	May '92	4.8%	2.4%	2.4%
Civilian Employment (Thousands of Persons) †	May '92	117,656	117,675	116,730
Unemployment as % of Civilian Labor Force †	May '92	7.5%	7.2%	6.8%
Personal Income*	May '92 n	$ 5,008	$ 4,994	$ 4,826
Leading Indicators Composite Index (1967=100) †	Apr '92	148.9	148.3	141.9
Industrial Production Index (1977=100) †	May '92 n	108.8	108.1 r	106.4
Net Change in Consumer Installment Credit †	Apr '92	- $ 3.82	- $ 0.99	- $ 0.05 r
U.S. Merchandise Trade Balance †	Apr '92 n	- $ 6.97	- $ 5.58 r	- $ 4.51
Plant and Equipment Expenditures*	3rd Q'92	$ 557.5 (a)	$ 558.5 (a)	$ 527.9
Private Housing Starts (Thousands of Units)*	May '92 n	1,230	1,108 r	983
New Construction Expenditures*	Apr '92	$ 418.8	$ 420.0	$ 407.0
Total Business Inventories †	Apr '92	$ 816.1	$ 815.7	$ 817.9
Total Business Sales †	Apr '92	$ 548.0	$ 548.9	$ 532.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial Digest

Volume XXIX, Number 14
Monday, July 13, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Premature Obituary

With the second half of the year now underway, once optimistic expectations of an acceleration of business activity have suddenly given way to an air of despondency. In recent weeks, policymakers and analysts alike have been buffeted by a sobering string of late spring economic statistics ranging from an easing of factory orders to a slippage of new and existing home sales to a plateauing of consumer confidence. However, the real clincher for the more pessimistic pundits was a hefty plunge in seasonally-adjusted payroll employment in June and a sharp upturn in the jobless rate, an unanticipated jolt which prompted the Federal Reserve to once again shove interest rates lower and ignited worries that the economy would stage a repeat performance of last year's latter half swoon. But while the business pace has softened since the first quarter, this recovery's obituary has yet to be written. The recent spate of downbeat economic news both exaggerates the degree of weakness and masks the positives which will keep the recovery on an admittedly slow track.

Not surprisingly, a windfall shift in sentiment accompanied the release of the June employment numbers. Whereas expectations abounded that payroll jobs would continue to expand at a modest pace, the Labor Department shattered this view with the news that nonfarm payrolls dropped by a seasonally-adjusted 117,000 persons in June, the largest one-month plunge this year. Job losses were reported to be widespread throughout the retailing, construction and manufacturing industries and, in a disturbing harbinger of a slower tempo of industrial activity, the length of the factory workweek shortened and overtime hours ebbed. What is more, at the same time that job growth was sputtering, the labor force was swelling. With an influx of recent school leavers looking for work, but with cost-conscious employers reluctant to take on new hires, the mix was in place for a spike in the jobless rate to an eight-year high of 7.8 percent.

The job picture painted by these numbers seemed too grim to be true—and it was. For lost amidst all the hoopla of "triple dips" and "nightmares" was the fact that the economy actually generated 457,000 payroll jobs in June, rather than shed 117,000. This divergence was the result of the seasonal adjustment of the "raw" payroll numbers; since the June employment gain was less than seasonally expected, the statistician's pencil erased entirely the good-sized increase in real jobs and transformed it into a fair-sized drop in so-called adjusted jobs. But since this is no typical year—with uncertainty rampant and employer cost-consciousness acute—it might be argued that faulty seasonal adjustment factors, and not systemic economic weakness, are providing an aberrant snapshot of the labor market. Since January, in fact, "real world" payroll jobs have expanded at a pace more than ten times faster than seasonally-adjusted payrolls, with employers adding better than 2.7 million people but only some 250,000 of these survived seasonal adjustment.

Automotive Assist

Against this backdrop, the outlook for consumer spending, and the rest of the economy, may be somewhat more sanguine than is commonly supposed. To be sure, household income growth has been modest for quite some time—largely suppressed by the flattening of interest income growth which has accompanied the nearly two dozen interest rate cuts initiated by the Federal Reserve over the past three years—and value-obsessed consumers continue to shy away from costly retailers. But discounters are generally posting solid sales gains (Financial Digest—June 29, 1992), a travel-related summer spending binge is just now getting underway and consumers have begun to return to automobile showrooms in droves. With the average age of the nation's automobile fleet standing at an all-time high, and most manufacturers offering buyer-friendly financing packages, replacement demand alone is beginning to shift into higher gear.

Stiffened by the soaring popularity of the Saturn nameplate—which earned top honors among domestic automobiles in the latest J.D. Power and Associates Customer Satisfaction Survey—and to some extent by so-called "fleet" sales, automobile and light truck sales ran at their fastest clip in 18 months during the final ten-day selling period of June, lending further credence to Detroit's belief that the long-

Economics
Department
17/270

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awaited auto recovery is finally underway. Although one ten-day selling period, or an entire month for that matter, does not necessarily provide a reliable guide to the future, automobile manufacturers apparently think so. The Big Three have scheduled a nearly 18 percent rise in auto and light truck output for the third quarter compared with year-earlier levels and the amount of idle time slated for existing assembly plants has been slashed appreciably.

If the upswing in automobile sales and output holds up, it will provide a solid assist to the economy in general, and take up some of the slack arising from a sluggish housing market in particular. For notwithstanding lower home prices in many areas and descending mortgage interest rates, housing—the other big motor of postwar recoveries—has yet to experience anything more than a subdued rebound. Although housing starts so far this year are running well ahead of last year's pace, several troubling signs put even these gains in jeopardy. Building permits have been easing in recent months, new home sales have been dropping for four straight months and existing home sales dipped in May. It wasn't supposed to be this way, since improved affordability alone was expected to spur the housing market. But besides such often-cited culprits as job insecurity and changing

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/24/92)	142,902	- 1,525	- 47,909
New York City (7/1/92)	24,985	- 539	- 7,219
Commercial Paper (7/1/92)	541,802	- 3,533	- 2,615

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/24/92)	280,174	- 1,427	- 28,577
New York City (7/1/92)	48,985	+ 558	- 5,754

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/24/92)	995,683	- 12,163	- 43,666
New York City (7/1/92)	168,025	+ 7,920	- 3,481

Financial Markets

	Friday 7/10/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.27%	- .02	- 2.41
180-Day Bills†	3.35	- .09	- 2.55
Longest Bills†	3.58	- .10	- 2.63
Recent Issues:			
5s 6/30/94	4.33	- .20	
6⅜s 6/30/97	5.89	- .12	
7½s 5/15/02	6.91	- .01	
8s 11/15/21	7.63	-0-	
Municipals:			
Bond Buyer—20 Bond Index* (7/9/92)	6.17%	- .21	- .90
Blue List Total ($ Million)	$ 876	- $ 278	- $ 313
30-Day Visible Supply ($ Million)	$3,388	+ $ 532	- $ 411
Total	$4,264	+ $ 254	- $ 724
Corporates:			
Moody's Aa Composite (7/9/92)	8.45%	- .07	- .82
30-Day Visible Supply ($ Million)	$1,725	+ $1,125	+$1,000
Stocks:			
Dow-Jones Averages:			
Industrials	3,330.56	+ .27	+349.79
Transportation	1,303.25	- 21.49	+ 93.80
Utilities	218.64	+ 5.07	+ 20.58
65 Stocks	1,170.36	- 1.70	+109.06
N.Y.S.E. Composite Index	227.88	+ 1.47	+ 19.71
N.Y.S.E. Avg. Daily Vol. for Week (000's)	224,491	+ 13,398	+64,661

*34% Taxable equivalent 9.35%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/10/92	Week Ago
Overnight	3.78%	3.44%
1 month	3.44	3.56
3 month	3.44	3.62
6 month	3.50	3.75
1 year	3.88	4.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/10/92)	Currency Per U.S. $	Week Ago
Belgium	31.08	31.17
Canada	1.1898	1.1996
France	5.0901	5.0948
Garmany	1.5080	1.5134
Italy	1142.02	1147.46
Japan	125.70	124.59
Mexico	3115.75	3122.26
Netherlands	1.7010	1.7064
South Korea	786.10	790.20
Switzerland	1.3633	1.3540
Taiwan	24.25	24.37
U.K.*	1.9083	1.9141

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (7/10/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.7%	-18.4%

demographics, Washington got into the act. The Administration proposed a first-time homebuyers' tax credit and Congress failed to deliver; in the midst of this dalliance, potential buyers went to the sidelines and it is now anyone's guess as to the number of purchases deferred during the heart of the make-or-break spring selling season.

Monetary Policy Limits

The inability of Washington to enact even a modest housing tax credit is emblematic of one of the larger obstacles plaguing this recovery. With yawning Federal deficits apparently locked in place, a further fiscal policy spur to the economy, as was so massively deployed following the deep 1981-82 recession, is unlikely. Although the June employment numbers did not seal this recovery's fate and, paradoxically, may have even given it a lift by encouraging the Fed to lower interest rates, and consumer willingness to again purchase automobiles is a clear-cut plus, the absence of any fiscal assist to the economy ensures that undue reliance will continue to be placed on monetary policy. But in today's cautious borrowing-lending environment, the ability of monetary policy to get the economy moving has its limits—and so does the strength of the recovery.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/8/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	281.112	+ .496	+20.050
Loans to Depository Inst.	.495	+ .078	+ .162
Float	1.541	+ 1.137	+ 1.053
Total Reserve Bank Credit	314.364	+ 2.577	+17.677
Treasury Deposits with Federal Reserve Banks	6.133	- 2.301	- .949
Currency in Circulation	313.299	+ 3.018	+18.438
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	280.147	+ .777	+38.485
Member Bank Reserves:	**7/8/92**		
Total Reserves Held	49.717	+ .273	- 1.539
Excess (Deficiency)	1.158	- .022	+ .276
Net Free Reserves	.703	- .289	+ .417
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (6/29/92)	949.6	+ 5.4	+ 11.0
M2 (6/29/92)	3,448.7	- 1.6	- 1.4
M3 (6/29/92)	4,146.7	- 2.8	- 0.1
Domestic Nonfinancial Debt (1st Q'92)	11,304.3	+ 3.9	+ 4.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/10/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.22%	3.28%	3.46%
* Federal Agencies	3.30	3.42	3.70
* Municipal Notes–High Grade (34% Taxable Equivalent)	3.78	3.94	4.55
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.40	3.50	3.80

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.28%	Aug.	3.28%
15- 29 days	3.30	Sep.	3.28
30- 59 days	3.30	Oct.	3.29
60- 89 days	3.33	Nov.	3.30
90-179 days	3.33	Dec.	3.32
180-239 days	3.40	Jan.	3.37
240-270 days	3.40		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	3.40%		
90-120 days	3.40	Effective Rate	3.13%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	1st Q'92	$ 5,821	$ 5,740	$ 5,589
Gross Domestic Product (1987 Dollars)*	1st Q'92	$ 4,901	$ 4,868	$ 4,824
Percent Change, Annual Rate	1st Q'92	2.7	0.4	- 2.5
Change in Consumer Prices*	May '92	1.2%	2.4%	2.4%
Change in CHEM Cost of Living Index*	May '92	1.2%	1.2%	2.4%
Change in Producer Prices*	Jun '92n	2.4%	4.8%	- 2.4%
Civilian Employment (Thousands of Persons) †	Jun '92n	117,574	117,656	116,909
Unemployment as % of Civilian Labor Force †	Jun '92n	7.8%	7.5%	6.9%
Personal Income*	May '92	$ 5,008	$ 4,994	$ 4,826
Leading Indicators Composite Index (1967=100) †	May '92n	149.9	149.0r	143.0
Industrial Production Index (1977=100) †	May '92	108.8	108.1	106.4
Net Change in Consumer Installment Credit †	May '92n	- $ 2.41	- $ 3.58r	- $ 1.50
U.S. Merchandise Trade Balance †	Apr '92	- $ 6.97	- $ 5.58	- $ 4.51
Plant and Equipment Expenditures*	3rd Q'92	$ 557.5(a)	$ 558.5(a)	$ 527.9
Private Housing Starts (Thousands of Units)*	May '92	1,230	1,108	983
New Construction Expenditures*	May '92n	$ 423.2	$ 422.4r	$ 399.0
Total Business Inventories †	Apr '92	$ 816.1	$ 815.7	$ 817.9
Total Business Sales †	Apr '92	$ 548.0	$ 548.9	$ 532.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial Digest

Volume XXIX, Number 15 Monday, July 27, 1992

Analysis of Business Trends Plus Selected Financial Indicators

Economics Department
17/270

Another Curve Ball

As if the economy wasn't having enough trouble eking out admittedly modest gains, another curve ball was recently thrown at the optimists who anticipate a quickening pace of business later this year. This time it was neither an unexpectedly weak economic statistic nor even one "made in America", but came from the economic epicenter of Europe in the form of a hike in Germany's discount rate to a postwar high of 8¾ percent. By prolonging Europe's monetary squeeze, this widely anticipated move heightened the worries of the global investment community that the industrial world was being consigned to an extended period of economic stagnation. And, for good reason. Most of Europe is already mired in the economic doldrums due to the punishing burden of lofty interest rates, Japan is experiencing a sharp business slowdown and, in light of deteriorating business conditions elsewhere, it might only be a matter of time before the muscle of US export growth, which has often provided the razor-thin margin between slow and no growth, turns to flab.

Nonetheless, while the financial and equity markets worldwide were reacting negatively to the German rate hike, they should have been breathing a sigh of relief. For although the Bundesbank possessed several compelling reasons to initiate an outright tightening of monetary policy, ranging from rapid money supply growth to an uncomfortably high rate of consumer price inflation to excessive credit demands, and has often been accused of being insensitive to the pan-European reverberations of its actions, this time around the German central bank tempered its inflation-fighting zeal with a healthy dose of business cycle reality. For when faced with the choice of hiking either the ceiling or the floor of German short-term interest rates, it chose to lift the floor and keep the ceiling; since money market rates hovered much closer to the effective ceiling imposed by the Lombard rate and far from the floor set by the discount rate, the net interest rate effect of the recent Bundesbank initiative was more apparent than real. This was just as well, for lifting the Lombard rate could have set into motion either a pan-European interest rate increase or, if other European Community (EC) members resisted, a severe bout of intra-European currency turbulence which would have jolted the Exchange Rate Mechanism of the European Monetary System.

While policymakers throughout Europe express a modicum of sympathy with Germany's efforts to combat inflation, it is leavened with a large dose of queasiness as to where this all leads. Judging by the latest economic readings, it's leading to economic stagnation and neither Germany, nor much of the rest of Europe, can relish the thought of a further escalation of interest rates. Although pockets of relatively robust business activity do exist, especially in Spain and Portugal, these are the exceptions rather than the rule. In Germany itself, a first quarter snapback in gross national product growth—following two straight quarterly declines—appears to have been short-lived. Renewed evidence of business weakness was in bountiful supply in the second quarter: Real retail sales are tumbling, industrial output is sputtering and order books are shrinking. Not surprisingly, the jobless rate has been heading higher in each month since February, and now stands at 6½ percent, the highest level since late 1990.

European Casualties

But whereas Germany's lackluster economic performance is the result of deliberate policy design, that of such countries as the United Kingdom and France is an unwanted byproduct—a cost of rigid policy coordination which a rapidly-unifying Europe has yet to address. Lacking the flexibility to unilaterally lower interest rates in order to maintain intra-European exchange rate stability, these countries have been stymied in their efforts to jump-start their economies. Take, for example, the United Kingdom. Beset with many of the same obstacles to growth as exist in the United States—lofty debt levels, a glut of commercial real estate and slumping home prices—the U.K. recession rolls on. The economy has contracted in six of the past seven quarters, confidence has tumbled and the jobless rate, at 9.6 percent, is at its highest level in nearly five years. Yet, even though inflation has slowed decidedly, sliced from nine percent when measured on a year-over-year basis in early 1991 to less than four percent now, and wage settlements have tapered as well, the economy still suffers under

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the burden of some of the loftiest interest rates in Europe.

The policy conundrum in France is similar although, by some yardsticks, less acute. The French economy has been posting modest gains and corporate profitability has been improving, but these advances have been insufficient to prevent the jobless rate from rising almost nonstop over the past two years to ten percent of the workforce. What is more, it is by no means a sure bet that France will be able to keep its growth rate in the plus column. Business sentiment is sour, domestic spending is sluggish and export prospects are darkening—both within Europe due to faltering business activity and outside Europe by the appreciation of the franc which has accompanied the ascent of European interest rates. And, while inflation has slowed to just three percent, this has only served to push the "real" cost of borrowing ever higher, well above the tolerance levels of countless small- and medium-sized businesses which create the bulk of new job opportunities.

Recovery Complication

Realizing the far-reaching effects of their actions, the German monetary policy hawks apparently blinked in their rate deliberations,

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/8/92)	141,461	+ 2,923	- 47,797
New York City (7/15/92)	27,093	- 571	- 4,807
Commercial Paper (7/15/92)	542,573	- 6,955	+ 3,426

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/8/92)	278,996	- 3,368	- 27,493
New York City (7/15/92)	48,555	+ 335	- 6,412

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/8/92)	994,396	- 11,056	- 37,689
New York City (7/15/92)	160,391	- 593	- 10,869

Financial Markets

	Friday 7/24/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.22%	- .01	- 2.50
180-Day Bills†	3.32	+ .01	- 2.61
Longest Bills†	3.55	+ .08	- 2.67
Recent Issues:			
5s 6/30/94	4.21	- .03	
6⅛s 6/30/97	5.63	- .16	
7½s 5/15/02	6.73	- .16	
8s 11/15/21	7.56	- .12	
Municipals:			
Bond Buyer—20 Bond Index* (7/23/92)	6.05%	- .11	- .95
Blue List Total ($ Million)	$ 880	- $ 154	- $ 334
30-Day Visible Supply ($ Million)	$4,746	+ $1,407	+$2,660
Total	$5,626	+ $1,253	+$2,326
Corporates:			
Moody's Aa Composite (7/23/92)	8.31%	- .06	- .88
30-Day Visible Supply ($ Million)	$1,480	- $1,145	+$1,155
Stocks:			
Dow-Jones Averages:			
Industrials	3,285.71	- 45.93	+313.21
Transportation	1,273.19	- 29.70	+ 68.68
Utilities	218.52	- 15.60	+ 15.55
65 Stocks	1,153.53	- 18.16	+ 91.64
N.Y.S.E. Composite Index	226.48	- 2.03	+ 17.70
N.Y.S.E. Avg. Daily Vol. for Week (000's)	174,601	- 22,033	+26.472

*34% Taxable equivalent 9.17%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/24/92	Week Ago
Overnight	3.31%	3.38%
1 month	3.38	3.38
3 month	3.44	3.44
6 month	3.63	3.56
1 year	3.81	3.81

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/24/92)	Currency Per U.S. $	Week Ago
Belgium	30.59	30.31
Canada	1.1910	1.1903
France	5.0201	4.9701
Germany	1.4860	1.4720
Italy	1127.77	1117.52
Japan	127.20	124.95
Mexico	3117.00	3115.00
Netherlands	1.6170	1.6083
South Korea	789.40	787.10
Switzerland	1.3145	1.2980
Taiwan	24.61	24.81
U.K.*	1.9153	1.9417

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
CHEM TRADE-WEIGHTED DOLLAR (7/24/92) (Adjusted for Inflation)	+0.7%	-18.4%

refusing to risk the substantial progress made to date in cementing European unity. But if the straitjacket of follow-the-German-leader monetary policy pinches the hardest in Europe, it would be a mistake to think that the United States is untouched. One of the major supports of this economy has been a rising tide of export sales; two-thirds of gross domestic product growth over the past year is attributable to the U.S. exporting community. Slow growth in Europe jeopardizes this prop, and the negative consequences are already being felt.

Exports to the European Community rose by only 5.2 percent in 1991 compared with year-earlier levels, far slower than the torrid double-digit annual rates of rise experienced during the 1987-1990 period. During the first five months of this year, export growth to Europe slowed even further, rising by just 1.1 percent compared with the same period of 1991. Although rising sales to Latin America and East Asia have offset some of the slack (Financial Digest—May 4, 1992), and the recently cheapened dollar may enhance the export outlook, the actions of the Bundesbank and the resulting policy paralysis in the rest of Europe have certainly done one thing here: They have complicated the job of keeping the U.S. recovery on track.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/22/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	281.957	+ 1.203	+24.937
Loans to Depository Inst.	.217	+ .004	- .272
Float	.294	- .138	- .055
Total Reserve Bank Credit	313.819	+ .997	+21.277
Treasury Deposits with Federal Reserve Banks	5.231	- .013	- .802
Currency in Circulation	313.942	- .531	+21.047
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	288.655	+ 4.031	+45.528
Member Bank Reserves:	7/22/92		
Total Reserves Held	49.802	+ .152	- .630
Excess (Deficiency)	1.061	+ .022	+ .120
Net Free Reserves	.846	+ .261	+ .370
Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (7/13/92)	956.5	+ 6.3	+ 11.0
M2 (7/13/92)	3,453.4	- 1.7	+ 1.2
M3 (7/13/92)	4,155.6	- 3.1	- 0.3
Domestic Nonfinancial Debt (1st Q'92)	11,304.3	+ 3.9	+ 4.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/24/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.16%	3.24%	3.41%
* Federal Agencies	3.33	3.40	3.53
* Municipal Notes–High Grade (34% Taxable Equivalent)	3.94	4.09	4.24
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.38	3.48	3.78

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.18%	Aug.	3.26%
15- 29 days	3.28	Sep.	3.26
30- 59 days	3.28	Oct.	3.26
60- 89 days	3.28	Nov.	3.28
90-179 days	3.28	Dec.	3.30
180-239 days	3.38	Jan.	3.37
240-270 days	3.40		

‡ Industrial Paper–Prime			
30- 89 days	3.32%	†Federal Funds	
90-120 days	3.35	Effective Rate	2.88%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	1st Q'92	$ 5,821	$ 5,740	$ 5,589
Gross Domestic Product (1987 Dollars)*	1st Q'92	$ 4,901	$ 4,868	$ 4,824
Percent Change, Annual Rate	1st Q'92	2.7	0.4	- 2.5
Change in Consumer Prices*	Jun '92n	3.6%	1.2%	3.6%
Change in CHEM Cost of Living Index*	Jun '92n	1.2%	1.2%	3.6%
Change in Producer Prices*	Jun '92	2.4%	4.8%	- 2.4%
Civilian Employment (Thousands of Persons) †	Jun '92	117,574	117,656	116,909
Unemployment as % of Civilian Labor Force †	Jun '92	7.8%	7.5%	6.9%
Personal Income*	May '92	$ 5,008	$ 4,994	$ 4,826
Leading Indicators Composite Index (1967=100) †	May '92	149.9	149.0	143.0
Industrial Production Index (1977=100) †	Jun '92n	108.2	108.6r	107.3
Net Change in Consumer Installment Credit †	May '92	- $ 2.41	- $ 3.58	- $ 1.50
U.S. Merchandise Trade Balance †	May '92n	- $ 7.38	- $ 7.06r	- $ 4.79
Plant and Equipment Expenditures*	3rd Q'92	$ 557.5(a)	$ 558.5(a)	$ 527.9
Private Housing Starts (Thousands of Units)*	Jun '92n	1,167	1,205r	1,036
New Construction Expenditures*	May '92	$ 423.2	$ 422.4	$ 399.0
Total Business Inventories †	May '92n	$ 829.1	$ 828.6r	$ 824.2r
Total Business Sales †	May '92n	$ 546.0	$ 547.1r	$ 535.4r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Financial Digest

Volume XXIX, Number 16 Monday, August 10, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

The Elusive Key

As short-term interest rates plumb ever-lower depths, the dollar flirts with postwar lows, and the likelihood of an additional fiscal assist is rendered evermore remote by an already yawning Federal budget deficit, the limits of government policy in jump-starting the economy are becoming all too apparent. But while Washington's policymakers may fret over what to do next, the fact is that until corporate America decides to turn on the employment spigot, the economy appears destined to remain in the slow lane, hamstrung by desultory consumer confidence, anemic income growth and sputtering spending gains.

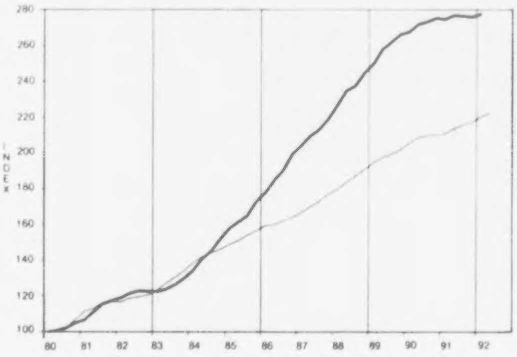
Nor does there appear to be any quick fix to the idling jobs machine. Corporate America finds itself struggling to restore profitability and dig out from under an oppressive debt mountain by slashing costs, reining in borrowing and boosting the productivity of its existing workforce. In this environment, new hires take a back seat to balance sheet repair and, for the first time in recent memory, the speed of a recovery will be largely determined by the pace at which the private sector redresses its ills, rather than the rapidity with which the public sector shoves interest rates and the dollar lower or pushes spending levels higher.

Economics
Department
17/270

If the restoration of corporate financial health is the elusive key needed to unlock the door to faster employment growth—and almost anything would be an improvement especially when you consider that total payroll employment today stands just a shade higher than it did three years ago—the good news is that the healing process has commenced. The bad news is that the road ahead is a long one, dotted with potholes. For while the economy has been eking out modest gains for five straight quarters, the upturn in corporate profitability has not. In fact, before- and after-tax profits continued to skid almost nonstop throughout 1991, before finally rebounding in a meaningful way in the first quarter of this year.

Nonetheless, "meaningful" is in the eye of the beholder. While before- and after-tax earnings of nonfinancial corporate America posted broad-based, double-digit gains in the first quarter compared with quarter-earlier levels, they still stood only marginally above depressed first quarter 1991 levels—8½ percent in the case of before-tax profits and about six percent for after-tax earnings. Although these numbers may seem respectable, they are only a shadow of the profits advances typically experienced during the initial stages of past recoveries, when first-year earnings gains of 30 to 40 percent have been common. What is more, the profits share of gross domestic product still hovers near its recent nadir of 5.9 percent and has yet to reclaim the heights reached in the late 1980s.

NONFINANCIAL CORPORATE DEBT (THICK) VS. GDP (THIN)
(FIRST QUARTER 1980=100)



Sources: Federal Reserve Board, Commerce Department

Mountains and Valleys

One of the principal obstacles to corporate recovery is the hefty debt mountain acquired by business in the 1980s. Although it would be an exaggeration to attribute all of corporate America's ills to the debt splurge of the past decade, debt service continues to extract a punishing toll from corporate cash flow and spending capability, notwithstanding the three-year decline in short-term interest rates which has alleviated some of the stress. Fueled by a wave of mergers and leveraged buyouts, especially in the latter half of the 1980s, as well as an unprecedented boom in commercial real estate, nonfinancial corporate liabilities more than doubled between 1983 and 1989. And, with the growth of corporate debt running well ahead of the economy's growth, the ratio of corporate debt to GDP vaulted from 30 percent in 1980 to nearly 40 percent in 1989. Although the debt buildup has since ebbed, the legacy of past profligacy has left a firm imprint on business financial statements: 40 cents of every cash flow

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dollar is now devoted to debt service, leaving corporate treasurers scrambling to rebuild net worth (see chart).

The "hurry up" effort to dig out from under this debt load has been complicated by the valley into which the inflation rate has fallen. Underlying much of the logic behind the debt accumulation of recent years was an incorrect, if understandable, expectation that the inflation spiral was endless. If it was, even the most imprudent borrowers would at least have a fighting chance of servicing their debt obligations in a timely fashion—relying upon their ability to lift selling prices with little fear of losing customers and paying back loans with ever-cheaper dollars from an inflation-swollen cash flow. Retailers, airlines and builders all hopped aboard this bandwagon with unbridled zeal. However, with the rate of inflation sliced in half over the past 18 months alone, inflation is bailing out few borrowers and an outright consumer revolt against higher prices is throttling the ability of business to not only randomly lift prices, but even to pass along legitimate cost increases (Financial Digest—June 29, 1992).

Permanent Temporaries?

Faced with the challenges of coping with unanticipated price stability on the one hand and the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (7/22/92)	139,301	- 561	- 49,618
New York City (7/29/92)	25,621	- 910	- 6,211
Commercial Paper (7/29/92)	540,143	+ 765	- 987

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (7/22/92)	277,529	- 1,962	- 24,980
New York City (7/29/92)	48,236	+ 164	- 6,060

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (7/22/92)	985,424	- 4,928	- 34,646
New York City (7/29/92)	157,037	- 841	- 14,384

Financial Markets

	Friday 8/7/92	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.19%	- .04	- 2.26
180-Day Bills†	3.28	- .08	- 2.32
Longest Bills†	3.42	- .12	- 2.34
Recent Issues:			
4¼s 7/31/94	4.14	NA	
5½s 7/31/97	5/55	NA	
7½s 5/15/02	6.55	- .15	
8s 11/15/21	7.40	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (8/6/92)	6.06%	+ .17	- .88
Blue List Total ($ Million)	$1,374	+ $ 434	+ $394
30-Day Visible Supply ($ Million)	$3,295	- $2,597	- $651
Total	$4,669	- $2,163	- $257
Corporates:			
Moody's Aa Composite (8/6/92)	8.23%	-0-	- .84
30-Day Visible Supply ($ Million)	$ 840	- $ 760	- $640
Stocks:			
Dow-Jones Averages:			
Industrials	3,332.18	- 61.60	+335.98
Transportation	1,277.40	- 90.24	+ 13.72
Utilities	221.08	- 4.32	+ 17.90
65 Stocks	1,165.74	- 26.23	+ 96.63
N.Y.S.E. Composite Index	230.79	- 2.36	+ 18.62
N.Y.S.E. Avg. Daily Vol. for Week (000's)	184,280	- 16,634	+28,965

*34% Taxable equivalent 9.18%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/7/92	Week Ago
Overnight	3.63%	3.31%
1 month	3.44	3.38
3 month	3.44	3.44
6 month	3.56	3.63
1 year	3.81	3.81

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/7/92)	Currency Per U.S. $	Week Ago
Belgium	30.43	30.45
Canada	1.1908	1.1825
France	4.9924	4.9974
Germany	1.4774	1.4785
Italy	1176.93	1119.47
Japan	127.92	127.35
Mexico	3108.00	3115.51
Netherlands	1.6659	1.6675
South Korea	787.20	787.40
Switzerland	1.3280	1.3185
Taiwan	24.77	24.68
U.K.*	1.9160	1.9199

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (8/7/92) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/85
	-0.1%	-18.8%

need to repair badly worn balance sheets on the other, corporate America has responded with a relentless drive to cut costs and boost productivity. Since the most prominent non-fixed cost of most firms is their wage bill, the ax has come down hard on labor, with widespread layoffs occurring in numerous industries. Even in firms and industries relatively unscathed by the past recession, there is a decided reluctance to take on additional full-time workers. As a result, the existing workforce is being utilized more intensively, with the average workweek lengthening, overtime hours increasing and, where necessary, the use of temporary employees surging. Since January, in fact, one of every two workers added to nonfarm payrolls has been a temporary employee.

In light of the escalation of benefit costs, the widespread use of temporary workers may well be a hallmark of employment trends for years to come. This suggests that many of today's temporary hires may well become permanent "temps". But at some point, with the existing workforce trimmed to the quick and profitability on the mend, the hiring dearth will come to an end. Although one month hardly establishes a trend, trends do start somewhere and the 198,000-person increase in payroll employment last month is as good a starting place as any. ▨

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	8/5/92	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	283.598	+ 3.558	+26.453
Loans to Depository Inst.	243	+ .006	- .960
Float	567	+ .180	+ .340
Total Reserve Bank Credit	316.424	+ 4.603	+22.608
Treasury Deposits with Federal Reserve Banks	6.707	+ 1.145	+ .899
Currency in Circulation	314.806	+ 1.319	+21.440
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	291.040	+ 3.804	+47.293
Member Bank Reserves:	8/5/92		
Total Reserves Held	49.054	- .697	- 1.208
Excess (Deficiency)	1.074	+ .129	+ .204
Net Free Reserves	834	+ .104	+ .668
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (7/27/92)	962.8	+ 7.7	+ 11.7
M2 (7/27/92)	3,454.7	- 1.6	+ 1.4
M3 (7/27/92)	4,154.6	- 2.6	- 0.2
Domestic Nonfinancial Debt (1st Q'92)	11,304.3	+ 3.9	+ 4.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/7/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.15%	3.21%	3.33%
* Federal Agencies	3.25	3.33	3.46
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.02	4.17	4.47
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.35	3.45	3.70

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.25%	Sep.	3.24%
15- 29 days	3.25	Oct.	3.24
30- 59 days	3.28	Nov.	3.24
60- 89 days	3.28	Dec.	3.26
90-179 days	3.29	Jan.	3.33
180-239 days	3.36	Feb.	3.33
240-270 days	3.38		

‡ Industrial Paper–Prime			
30- 89 days	3.35%	†Federal Funds	
90-120 days	3.35	Effective Rate	3.13%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	2nd Q'92 n	$ 5,894	$ 5,840r	$ 5,658r
Gross Domestic Product (1987 Dollars)*	2nd Q'92 n	$ 4,890	$ 4,874r	$ 4,817r
Percent Change, Annual Rate	2nd Q'92 n	1.4	2.9r	1.7r
Change in Consumer Prices*	Jun '92	3.6%	1.2%	3.6%
Change in CHEM Cost of Living Index*	Jun '92	1.2%	1.2%	3.6%
Change in Producer Prices*	Jun '92	2.4%	4.8%	- 2.4%
Civilian Employment (Thousands of Persons) †	Jul '92 n	117,772	117,574	116,729
Unemployment as % of Civilian Labor Force †	Jul '92 n	7.7%	7.8%	6.8%
Personal Income*	Jun '92 n	$ 5,024	$ 5,026r	$ 4,828r
Leading Indicators Composite Index (1967=100) †	Jun '92 n	149.6	149.9	143.9
Industrial Production Index (1977=100) †	Jun '92	108.2	108.6	107.3
Net Change in Consumer Installment Credit †	May '92	- $ 2.41	- $ 3.58	- $ 1.50
U.S. Merchandise Trade Balance †	May '92	- $ 7.38	- $ 7.06	- $ 4.79
Plant and Equipment Expenditures*	3rd Q'92	$ 557.5 (a)	$ 558.5 (a)	$ 527.9
Private Housing Starts (Thousands of Units)*	Jun '92	1,167	1,205	1,036
New Construction Expenditures*	Jun '92 n	$ 416.9	$ 423.4r	$ 398.2r
Total Business Inventories †	May '92	$ 829.1	$ 828.6	$ 824.2
Total Business Sales †	May '92	$ 546.0	$ 547.1	$ 535.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

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Financial Digest

Volume XXIX, Number 17

Monday, August 24, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Icing On The Cake?

As if the recession-wary American worker didn't have enough to worry about, the announcement of a comprehensive free trade agreement reached by the United States, Canada and Mexico has ignited fears of a wholesale migration of high-paying U.S. factory jobs to low-wage Mexico. For with the Mexican economy in the midst of a pronounced revitalization and sweeping regulatory reform, the likelihood of the long-discussed North American Free Trade Agreement (NAFTA) becoming a reality may well be the icing on the cake which prompts numerous U.S. companies to redirect investment spending from here to there and relocate manufacturing operations south of the border.

But while some of this may happen, whether or not NAFTA ultimately entails a significant, or even any net, loss of domestic jobs is highly uncertain. Lower wages in Mexico are often accompanied by lower productivity, a distinct disadvantage to many firms considering relocation. What is more, since most Mexican products entering this country already face negligible duties, rather than the tangled web of quotas and tariffs which confronts many U.S. products sold in Mexico, the removal of existing trade impediments may well benefit U.S. exporters to a greater extent than their Mexican counterparts. And, with Mexico poised to eclipse Japan as our second largest trading partner, less fettered access to fast-growing Mexico should translate into more sales, profits and jobs here.

Although the nascent trade pact still requires the legislative approval of all three nations, it culminates 14 months of negotiations designed to fuse together a free trade zone stretching from the Arctic Circle to the Yucatan. For the United States and Canada, it shifts to the south the borders of their 1988 free trade agreement and extends somewhat belated recognition to the growing importance of Mexico in regional trade flows. But for Mexico, the pact entails much more than potential business benefits. It confers a seal of approval on Mexico's three-year burst of economic growth, liberalization and privatization of subsidy-gobbling state industries (Financial Digest—June 15, 1992), all of which not only laid the groundwork for NAFTA participation but swept away some of the painful memories of the debt-plagued 1980s.

Export Bonanza

If NAFTA represents a symbolic rite of passage for Mexico away from the stagnation of the past to the dynamism of the future, it holds out the promise of a business bonanza for U.S. exports. With Europe mired in a prolonged period of economic stagnation and the Japanese economy slowing to a crawl, U.S. exporters have been turning their sights toward Mexico for years. Paced by a surge in capital goods exports ranging from construction machinery to telecommunications equipment to agricultural machinery, U.S. exports to Mexico have nearly tripled in the past five years alone, swelling from nearly $12½ billion in 1986 to $33½ billion last year. Nor is the boom over yet. During the first six months of this year, U.S. exports were running at a better than $40 billion annual pace; nearly one-fifth of every $1 of export growth over the past year was accounted for by Mexico. The growth of sales to Mexico is now far outpacing the growth of exports elsewhere—transforming a once-chronic U.S. trade deficit with our southern neighbor into a $3 billion trade surplus during the first half of this year.

The preferential trading relationship which is the heart of NAFTA should both solidify recent U.S. trade gains as well as promise new ones. With existing tariffs slated to be phased out over the next 15 years, and Mexican duties on U.S. goods generally averaging 2½ times those we impose on Mexican products, trade liberalization favors even deeper U.S. penetration of Mexico's product markets. Among the beneficiaries will be computer manufacturers who now face lofty 20 percent tariffs on their products, apparel producers who will welcome lower duties and stiff rules of origin in order for such products to qualify for preferential treatment and corn and wheat growers who will harvest the advantages arising from the elimination of Mexico's strict licensing requirements. Service industries, too, will have a shot at new opportunities. While banks, insurance companies and securities firms get the lion's share of the publicity since they will be allowed freer access to the once highly-protected Mexican financial

Economics
Department
44/270

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services market, benefits will also accrue to the trucking companies that will be permitted to carry international cargo throughout Mexico by the end of this decade and the railroads that will be able to provide service to that country.

Job Anxiety

But if the business community senses opportunity, some segments of organized labor see danger. The naysayers have pointedly focused on the potential loss of employment which might accompany the relocation of generally labor-intensive, low-skill production operations to Mexico and have virtually ignored the estimated 700,000 goods-producing jobs supported by the existing level of U.S. exports to Mexico. While this may seem one-sided—if not short-sighted—there is some substance behind the job anxiety. While factory employment in this country has stood virtually still over the past 20 years, Mexico has created more than 500,000 new factory jobs since the late 1960s. Nor would this feat have been possible in the absence of hefty investments by U.S. nonfinancial companies in manufacturing operations in Mexico. The book value of U.S. direct investment in Mexico has ballooned in recent years—rising from $4.9 billion in 1987 to nearly

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/5/92)	138,591	+ 413	- 49,885
New York City (8/12/92)	25,910	- 188	- 5,844
Commercial Paper (8/12/92)	538,486	+ 110	+ 4,077

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/5/92)	277,941	+ 1,474	- 23,969
New York City (8/12/92)	48,781	- 75	- 4,865

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/5/92)	985,154	+ 979	- 36,795
New York City (8/12/92)	155,713	- 346	- 13,129

Financial Markets

	Friday 8/21/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.13%	+ .01	- 2.40
180-Day Bills†	3.22	- .02	- 2.47
Longest Bills†	3.41	–0–	- 2.40
Recent Issues:			
4¼s 7/31/94	4.08	- .02	
5½s 7/31/97	5.51	- .02	
7½s 5/15/02	6.53	- .01	
8s 11/15/21	7.37	- .02	
Municipals:			
Bond Buyer—20 Bond Index* (8/20/92)	6.21%	- .16	- .65
Blue List Total ($ Million)	$1,854	+ $ 382	+$ 470
30-Day Visible Supply ($ Million)	$5,973	+ $1,138	+$4,421
Total	$7,827	+ $1,520	+$4,891
Corporates:			
Moody's Aa Composite (8/20/92)	8.19%	- .01	- .73
30-Day Visible Supply ($ Million)	$1,350	+ $ 135	+$ 695
Stocks:			
Dow-Jones Averages:			
Industrials	3,254.10	- 74.84	+213.85
Transportation	1,237.55	- 19.73	+ 22.11
Utilities	220.77	+ 1.44	+ 14.77
65 Stocks	1,139.77	- 18.47	+ 59.21
N.Y.S.E. Composite Index	228.63	- 2.43	+ 12.88
N.Y.S.E. Avg. Daily Vol. for Week (000's)	152,594	- 16,113	- 48,746

*34% Taxable equivalent 9.41%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/21/92	Week Ago
Overnight	3.38%	3.31%
1 month	3.44	3.38
3 month	3.44	3.44
6 month	3.50	3.50
1 year	3.63	3.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/21/92)	Currency Per U.S. $	Week Ago
Belgium	29.89	30.08
Canada	1.1920	1.1916
France	4.1950	4.9575
Germany	1.4514	1.4655
Italy	1102.99	1108.98
Japan	126.52	126.07
Mexico	3083.00	3111.00
Netherlands	1.6345	1.6450
South Korea	791.30	787.20
Switzerland	1.2870	1.3225
Taiwan	24.93	24.88
U.K.*	1.9370	1.9300

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (8/21/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-3.3%	-21.3%

$12 billion at the end of last year.

Nonetheless, the past may be a faulty guide to the future, and fears of sizeable U.S. jobs losses in the wake of freer trade seem ill-founded. For one thing, there just aren't that many low-skill, low wage factory jobs around anymore. In the goods-producing industries, the trend is either toward the production of high-technology goods by an increasingly skilled workforce or, for the output of more mundane products, the utilization of increasingly sophisticated equipment by fewer, yet more productive workers. While some higher-paying factory jobs in a few industries may be at risk, their loss is by no means a sure bet when you consider the wide disparity in U.S.-Mexican productivity levels. For another, even in such industries as textiles, apparel and agriculture where lower wage scales typically prevail, the irony of NAFTA is that lower tariffs and enhanced access to Mexican markets may actually produce more, not fewer jobs. And, finally, a buoyant Mexican economy may stanch the flow of Mexican workers to this country or even lure countless others back home, expanding, rather than diminishing entry-level opportunities in such states as California and Texas.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	8/19/92	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	284.436	+ 2.439	+26.125
Loans to Depository Inst.	268	+ .038	- .487
Float	811	+ .420	+ .228
Total Reserve Bank Credit	317.056	+ 2.211	+24.853
Treasury Deposits with Federal Reserve Banks	5.291	- .153	+ .153
Currency in Circulation	316.374	+ .094	+22.370
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	296.114	+ 2.751	+45.970
Member Bank Reserves:	8/19/92		—
Total Reserves Held	50.321	+ 1.272	- .656
Excess (Deficiency)	837	- .086	- .224
Net Free Reserves	588	- .094	- .075
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (8/10/92)	972.2	+ 7.2	+ 11.9
M2 (8/10/92)	3,467.5	- 1.4	+ 1.6
M3 (8/10/92)	4,162.5	- 2.0	+ 0.1
Domestic Nonfinancial Debt (1st Q'92)	11,304.3	+ 3.9	+ 4.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/7/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.09%	3.16%	3.28%
* Federal Agencies	3.15	3.25	3.35
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.24	4.39	4.55
Negotiable Time CDs Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.38	3.46	3.62

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.25%	Sep.	3.20%
15- 29 days	3.25	Oct.	3.20
30- 59 days	3.25	Nov.	3.20
60- 89 days	3.25	Dec.	3.20
90-179 days	3.25	Jan.	3.20
180-239 days	3.28	Feb.	3.20
240-270 days	3.28		

‡ Industrial Paper–Prime			
30- 89 days	3.35%	†Federal Funds	
90-120 days	3.43	Effective Rate	3.13%

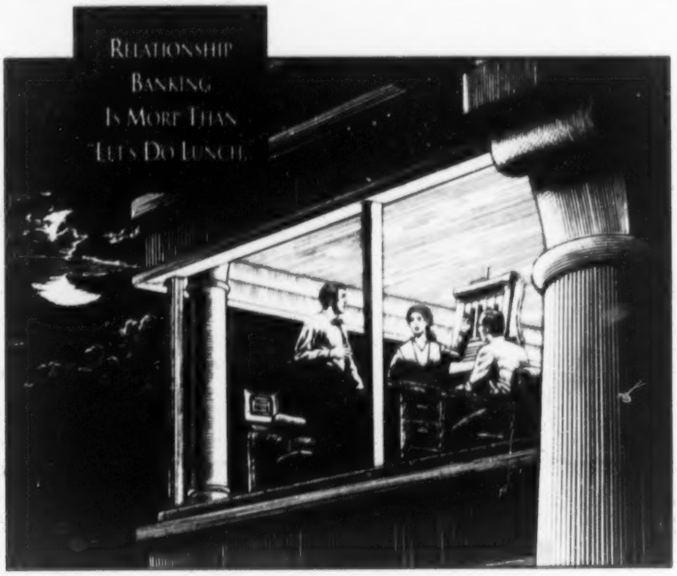
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	2nd Q'92	$ 5,894	$ 5,840	$ 5,658
Gross Domestic Product (1987 Dollars)*	2nd Q'92	$ 4,890	$ 4,874	$ 4,817
Percent Change, Annual Rate	2nd Q'92	1.4	2.9	1.7
Change in Consumer Prices*	Jul '92n	1.2%	3.6%	1.2%
Change in CHEM Cost of Living Index*	Jul '92n	1.2%	1.2%	0.0%
Change in Producer Prices*	Jul '92n	1.2%	2.4%	- 2.4%
Civilian Employment (Thousands of Persons) †	Jul '92	117,772	117,574	116,729
Unemployment as % of Civilian Labor Force †	Jul '92	7.7%	7.8%	6.8%
Personal Income*	Jun '92	$ 5,024	$ 5,026	$ 4,828
Leading Indicators Composite Index (1967=100) †	Jun '92	149.6	149.9	143.9
Industrial Production Index (1977=100) †	Jul '92n	108.9	108.5r	108.1
Net Change in Consumer Installment Credit †	Jun '92n	- $ 1.02	- $ 0.89r	- $ 1.62
U.S. Merchandise Trade Balance †	Jun '92n	- $ 6.59	- $ 7.14r	- $ 3.79
Plant and Equipment Expenditures*	3rd Q'92	$ 557.5(a)	$ 558.5(a)	$ 527.9
Private Housing Starts (Thousands of Units)*	Jul '92n	1,119	1,151r	1,053
New Construction Expenditures*	Jun '92	$ 416.9	$ 423.4	$ 398.2
Total Business Inventories †	Jun '92n	$ 833.4	$ 828.0r	$ 820.7r
Total Business Sales †	Jun '92n	$ 555.6	$ 546.1r	$ 534.8r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.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Financial Digest

Volume XXIX, Number 18 Friday, September 4, 1992

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Dollar Depressants

Although the last gasp of summer in the Northern Hemisphere is often associated with listless activity in the foreign exchange markets, a far different climate has prevailed in the currency pits in recent weeks. With the thrust of monetary policy in the United States and Germany headed in opposite directions and the spread between U.S. and German short-term interest rates widening to a postwar high, yield differentials alone are providing more than enough justification to traders and investors to shun the dollar and husband Deutschemarks. But this isn't the only reason for the dollar's tumble to an all-time low versus the German currency.

Hovering just off-stage are the future policy uncertainties associated with the upcoming U.S. Presidential elections and this month's referendum in France on the proposed outlines of European monetary union. At this juncture, the dollar seems to come up short whatever the voters here and in France decide. In the United States, the global investment community has understandably shown little faith in either Party's ability to remedy Washington's deep-seated financial ills. In France, a thumbs up to the proposed monetary union would bolster confidence in Europe's commitment to monetary and fiscal discipline; a no vote would do the opposite — possibly touching off a scramble to find a safe harbor which many assume only the tight-fisted inflation-fighters in Germany can provide.

Economics
Department
44/270

The most obvious dollar depressant is the wide disparity in short-term interest rates between the United States and Europe. Although dollar-unfriendly international interest rate differentials have prevailed for quite some time, expectations abounded earlier this year that a change was in the offing. If all went right, according to the dollar enthusiasts, U.S. interest rates would be heading higher by this time as the economic recovery here picked up momentum and European interest rates would be trending lower as monetary policies were relaxed there in order to combat a widespread limpness in business conditions. But while the U.S. economy has indeed been expanding for five straight quarters and large swaths of Europe are mired in a prolonged period of economic stagnation, this has yet to translate into narrower interest rate differentials.

Faced with an admittedly lethargic business rebound and the virtual absence of inflation pressures, the Federal Reserve has found itself with an unusual degree of policy flexibility and has decided to use it, repeatedly shoving short-term interest rates lower in an all-out attempt to place the economy on a faster growth track. But whereas inflation is viewed as a distant threat in this country, it is priority number one at the German central bank. Uncomfortable with what had been a four percent plus inflation rate and nearly double-digit rates of money supply growth, the Bundesbank has marched to the tune of a different drummer, tightening monetary policy even in the face of a faltering business pace in Germany itself, and elsewhere in Europe where German interest rate increases have been matched in order to maintain intra-European exchange rate stability. The footprint of these starkly different monetary policies has been a widening differential between U.S. and European interest rates; three-month Euro-Deutschemark rates now stand just about 6½ full percentage points above comparable-term Eurodollar rates.

Two Votes

The potential results of two forthcoming votes have added to the worries surrounding the dollar's future course. Perhaps just as toxic as existing yield differentials to the dollar's global allure is a widespread belief that the upcoming Presidential elections in this country will do little to redress Washington's chronic financial ills—which many global investors arguably believe lie at the heart of the economy's, and the dollar's current woes. With the Administration proposing across-the-board tax cuts and ill-defined spending limitations, while the Democratic challenger promises some $200 billion of additional discretionary Federal spending and few substantive revenue "enhancers", well-founded doubts have arisen regarding either candidate's commitment to Federal deficit reduction. And, while large Federal deficits have not precluded either a decided slowing of inflation or a plunge in interest rates, the skeptics argue that these developments are due to the malaise of the private sector—a problem which is unlikely to go away as long as the Federal

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government absorbs an ever-larger proportion of the net national savings which could otherwise be used for job-creating, productivity-boosting investment.

But more immediate dangers for the dollar lurk behind this month's referendum in France, which may determine the future speed at which Europe moves toward a single currency and one central bank. Although the vote could go either way, French acceptance of the so-called Maastricht Treaty could enhance further the desirability of European currencies. Outlining strict economic criteria for full participation in monetary union, a yes vote would not only keep alive this visionary effort, but it would also lessen the likelihood of any backsliding by the members of the European Monetary System (EMS) in their commitment to monetary and budgetary discipline. In practical terms, public policy would continue to be characterized by lofty interest rates and efforts to keep budget deficits in check.

Scylla and Charybdis

A rejection of the Maastrict framework, on the other hand, may also work against the dollar, especially in relation to the mighty Deutsche-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (8/19/92)	136.419	- 1,463	- 50,178
New York City (8/26/92)	24.586	- 696	- 5,970
Commercial Paper (8/26/92)	540.296	+ 875	+ 4,589

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (8/19/92)	276.705	- 283	- 23,114
New York City (8/26/92)	48,064	- 508	- 5,790

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (8/19/92)	980,381	- 2,331	- 39,980
New York City (8/26/92)	158,775	+ 2,027	- 12,036

Financial Markets

	Friday 9/4/92	Change Since	
		Week Ago	Year Ago
U.S. Governments, 2 p.m. Yields:			
90-Day Bills†	2.96%	- .26	- 2.47
180-Day Bills†	3.03	- .30	- 2.50
Longest Bills†	3.15	- .29	- 2.47
Recent issues:			
4¼s 7/31/94	3.85	- .31	
5½s 7/31/97	5.28	- .33	
7½s 5/15/02	6.39	- .24	
8s 11/15/21	7.28	- .14	
Municipals:			
Bond Buyer—20 Bond Index* (9/3/92)	6.24%	- .07	- .62
Blue List Total ($ Million)	$1,132	- $ 459	- $ 26
30-Day Visible Supply ($ Million)	$6,224	+ $1,890	+ $3,273
Total	$7,356	+ $1,431	+ $3,247
Corporates:			
Moody's Aa Composite (9/3/92)	8.19%	- .06	- .75
30-Day Visible Supply ($ Million)	$1,425	- $ 590	+ $ 620
Stocks: (Thursday)			
Dow-Jones Averages:			
Industrials	3,292.20	+ 29.18	+ 280.57
Transportation	1,262.07	+ 50.00	+ 86.99
Utilities	219.70	+ 1.37	+ 13.45
65 Stocks	1,152.81	+ 20.23	+ 88.29
N.Y.S.E. Composite Index	230.12	+ 2.39	+ 16.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	228,049	+ 13,819	+ 68,144

*34% Taxable equivalent 9.45%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/4/92	Week Ago
Overnight	3.00%	3.38%
1 month	3.13	3.44
3 month	3.13	3.44
6 month	3.19	3.44
1 year	3.38	3.56

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/4/92)	Currency Per U.S. $	Week Ago
Belgium	28.98	29.03
Canada	1.1984	1.1949
France	4.7750	4.7894
Germany	1.4045	1.4069
Italy	1074.00	1074.00
Japan	123.10	123.77
Mexico	3076.25	3083.51
Netherlands	1.5816	1.5877
South Korea	785.65	789.20
Switzerland	1.2515	1.2598
Taiwan	24.84	24.90
U.K.*	1.9945	1.9830

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (9/4/92) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/85
	-0.8%	-22.0%

mark. Following Denmark's early-June rejection of the Maastrict proposals, nervous investors poured "hot money" into Germany and the dollar took a pronounced tumble. This time around, the same thing might happen but with an added wrinkle. Although admittedly a long-shot, such economically-weaker countries as the United Kingdom and Italy might seize the opportunity to ease monetary policy while lowering the value of their currencies to more readily defensible positions versus the Deutschemark. If such a realignment does occur, the German currency's attractiveness could be enhanced further. Stung by criticism of the recessionary impulses bequeathed to much of Europe by its tight-fisted monetary policy, the Bundesbank has had to temper at times its inflation fight, navigating between the Scylla of what it views as a premature easing of monetary policy demanded by others and the Charybdis of the growing enmity of its EMS partners. Rejection of Maastrict, if followed by currency realignment, would relieve intra-European exchange rate tensions and permit the German central bank to pursue even more vigorously its domestic agenda—vanquishing inflation and keeping the Deutschebank the safest harbor around. ▨

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/2/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	285 943	+ 3.908	+21.988
Loans to Depository Inst.	249	- .017	- .581
Float	785	+ .061	+ .599
Total Reserve Bank Credit	317 527	+ 4.424	+21.191
Treasury Deposits with			
Federal Reserve Banks	5 744	+ .124	- .516
Currency in Circulation	316 453	+ 1.090	+21.313
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	295 956	+ .854	+46.845
Member Bank Reserves:	9/2/92		
Total Reserves Held	49 530	- .798	- .800
Excess (Deficiency)	1 172	+ .351	- .101
Net Free Reserves	914	+ .342	+ .030
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**‡ % Change Since Year Ago**
M1 (8/24/92)	972 1	+ 7.8	+ 12.2
M2 (8/24/92)	3 464 6	- 0.4	+ 1.6
M3 (8/24/92)	4 167 5	- 0.9	+ 0.3
Domestic Nonfinancial Debt (1st Q'92)	11 304 3	+ 3.9	+ 4.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/4/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	2.90%	2.96%	3.04%
* Federal Agencies	3.00	3.10	3.23
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.09	4.24	4.39
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	2.80	2.90	3.00

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	2.95%	Oct.	3.25%
15- 29 days	3.00	Nov.	3.25
30- 59 days	3.05	Dec.	3.25
60- 89 days	3.05	Jan.	3.25
90-179 days	3.05	Feb.	3.22
180-239 days	3.05	Mar.	3.21
240-270 days	3.05		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	3.10%		
90-120 days	3.10	Effective Rate	2.94%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	2nd Q'92	$ 5,899r	$ 5,840r	$ 5,658r
Gross Domestic Product (1987 Dollars)*	2nd Q'92	$ 4,891r	$ 4,874r	$ 4,817r
Percent Change, Annual Rate	2nd Q'92	1.4r	2.9r	1.7r
Change in Consumer Prices*	Jul '92	1.2%	3.6%	1.2%
Change in CHEM Cost of Living Index*	Jul '92	1.2%	1.2%	0.0%
Change in Producer Prices*	Jul '92	1.2%	2.4%	- 2.4%
Civilian Employment (Thousands of Persons) †	Aug '92n	117,737	117,772	116,484
Unemployment as % of Civilian Labor Force †	Aug '92n	7.6%	7.7%	6.8%
Personal Income*	Jul '92n	$ 5,050	$ 5,039r	$ 4,828
Leading Indicators Composite Index (1967=100) †	Jul '92n	149.6	149.5r	145.6
Industrial Production Index (1977=100) †	Jul '92	108.9	108.5	108.1
Net Change in Consumer Installment Credit †	Jun '92	- $ 1.02	- $ 0.89	- $ 1.62
U.S. Merchandise Trade Balance †	Jun '92	- $ 6.59	- $ 7.14	- $ 4.67r
Plant and Equipment Expenditures*	3rd Q'92	$ 557.5(a)	$ 558.5(a)	$ 527.9
Private Housing Starts (Thousands of Units)*	Jul '92	1,119	1,151	1,053
New Construction Expenditures*	Jul '92n	$ 422.0	$ 424.4r	$ 397.0r
Total Business Inventories †	Jun '92	$ 833.4	$ 828.0	$ 820.7
Total Business Sales †	Jun '92	$ 555.0r	$ 546.1	$ 534.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

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Financial Digest

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Financial Digest

Volume XXIX, Number 19

Monday, September 21, 1992

Analysis of Business Trends Plus Selected Financial Indicators

Economics Department
44/270

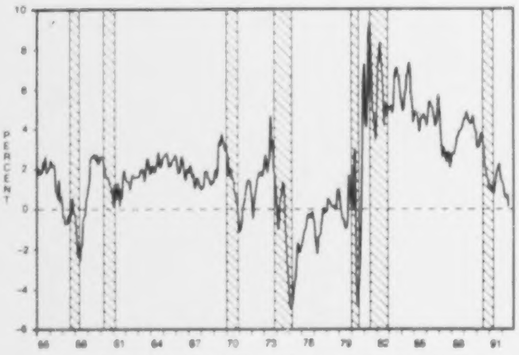
Monetary Policy Failings?

Although the dust has barely settled in the wake of the most recent easing of monetary policy earlier this month, the cottage industry of so-called "market watchers" is already urging the Federal Reserve to initiate the next round of interest rate cuts. To the critics, the measured pace of monetary ease over the past three years has been far too cautious to resuscitate the ailing economy. If the brakes on monetary policy had been lifted more aggressively, according to this view, M2 money supply growth would be faster, the inflation-adjusted Federal funds rate would be deeply riveted in negative territory and the demand for credit would be bounding higher, rather than treading water.

But while the monetary reins could have been loosened more quickly, it is doubtful whether or not the subsequent impact on the economy would have been any different than the results produced so far. For with consumers and businesses reluctant to borrow at almost any price, commercial banks tightening lending standards in response to regulator demands and balance sheet concerns, defense spending cuts extracting a hefty toll on employment, and diminished interest income pinching household spending, the health of this economy pivots around far more than the next one-half percentage point reduction in the Federal funds rate or another percentage point or two of money supply growth.

Perhaps the principal cause for concern at this juncture is the continuing anemic growth of both money and credit—two of the lubricants which tend to power economic activity. The growth of the M2 money supply, for example, has been stuck in low gear all year long, rising by a paltry 1½ percent so far this year, or well below the Federal Reserve's 2½ to 6½ percent target range. Even more noticeable has been the virtual absence of the usual post-recession wave of private sector borrowing and spending, which in the past has satisfied the pent-up demands for new homes and automobiles or provided the wherewithal for business spending on new plant and equipment. Over the past year, potential borrowers have largely turned a blind eye toward the drop in interest rates; private sector debt outstanding has risen by just two percent. Although this may seem like a fair-sized, if modest number, it pales in comparison with the past and is actually less than one-quarter of the rate of rise in private sector credit typically experienced during the initial stages of recovery from preceding post-war recessions.

SPREAD BETWEEN FEDERAL FUNDS RATE AND
12-MONTH PERCENT CHANGE IN TOTAL CPI



Source Federal Reserve Bank of NY Bureau of Labor Statistics

For the pundits to point out the dearth of money and credit growth is one thing, but to attribute them to monetary policy failings is quite another. The lackluster pace of M2 growth can be directly traced not to the central bank, but to the unwillingness of consumers to rollover small-saver certificates of deposit at interest rates now approaching thirty-year lows. Rather than symptomatic of a liquidity-starved economy, the deficiency in M2 growth this year reflects both the increasing financial sophistication of many small savers and the multitude of financial products, many of which lie outside the traditional components of the money supply, competing for small-saver dollars. The growth of the M1 money supply, in contrast, which has been far less affected by the tidal wave of deposit shifts now underway and provides a better gauge of transactions-related liquidity, has not only been expanding at a much more vigorous clip than M2—nearly 13 percent so far this year—but at a pace which some fear is far too robust if price stability is to be maintained.

Credit Malaise

Nonetheless, hardly anyone suggests that the Fed should lift interest rates in order to prompt a reflow of funds into small certificates of deposit, and thereby have a better shot at achieving this year's M2 target. So, too, policy remedies for the credit malaise have proven

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elusive. For notwithstanding the Fed's increasingly generous provision of nonborrowed reserves to the banking system—the wherewithal to turn on the credit spigot—the results have been disappointing. Short-term commercial and industrial loan demand has been easing for months, consumers have been attempting to lighten debt burdens and banks have been striving to meet stricter capital standards. If all this seems like a recipe for a borrowing and lending torpor, it is; with private borrowers scarce, banks have been lending to the Federal government, increasing their purchases of Treasury securities by more than 20 percent over the past year. But even a relaxation of regulatory standards, as some suggest, will have only a modest impact on loan demand if borrowers remain on strike. And, in the absence of simply giving money away, the only other alternative is to do just about that, namely, drive short-term interest rates well below the rate of inflation. However, even reducing the "real" cost of money far below zero might not be a magic bullet for the economy. As shown in the chart, although the inflation-adjusted Federal funds rate does, indeed, stand well above the rate prevailing at the trough of most other recessions, it has been falling for months with little effect and, at its present level, can hardly be considered a signifi-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/2/92)	134,754	- 756	- 49,420
New York City (9/9/92)	25,199	+ 10	- 4,785
Commercial Paper (9/9/92)	542,430	+ 1,054	+ 12,443

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/2/92)	275,956	+ 960	- 24,001
New York City (9/9/92)	47,459	- 774	- 6,423

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/2/92)	987,232	+ 3,928	- 30,180
New York City (9/9/92)	157,815	- 2,229	- 10,582

Financial Markets

	Friday 9/18/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, 2 p.m. Yields:			
90-Day Bills†	2.94%	- .02	- 2.37
180-Day Bills†	2.99	- .02	- 2.45
Longest Bills†	3.13	- .02	- 2.41
Recent Issues:			
4¼s 8/31/94	3.82	- .01	
5⅝s 8/31/97	5.39	+ .09	
6⅜s 8/31/02	6.41	+ .07	
7½s 8/31/22	7.35	+ .07	
Municipals:			
Bond Buyer—20 Bond Index* (9/17/92)	6.27%	+ .11	- .51
Blue List Total ($ Million)	$ 1,268	+ $ 306	- $ 115
30-Day Visible Supply ($ Million)	$ 9,214	+ $3,986	+$5,477
Total	$10,482	+ $4,292	+$5,362
Corporates:			
Moody's Aa Composite (9/17/92)	8.16%	+ .05	- .69
30-Day Visible Supply ($ Million)	$ 2,030	- $ 255	+$1,415
Stocks: (Thursday)			
Dow-Jones Averages:			
Industrials	3,327.03	+ 21.33	+307.80
Transportation	1,286.64	+ 9.05	+ 99.40
Utilities	220.33	- 1.5	+ 12.15
65 Stocks	1,166.64	+ 5.29	+ 96.03
N.Y.S.E. Composite Index	232.39	+ 1.59	+ 19.41
N.Y.S.E. Avg. Daily Vol. for Week (000's)	243,451	+ 58,225	+56,603

*34% Taxable equivalent 9.50%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/18/92	Week Ago
Overnight	3.06%	3.06%
1 month	3.25	3.25
3 month	3.25	3.19
6 month	3.31	3.25
1 year	3.44	3.38

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/18/92)	Currency Per U.S. $	Week Ago
Belgium	31.00	29.55
Canada	1.2213	1.2231
France	5.1250	4.8674
Germany	1.4977	1.4347
Italy	1260.08	1097.02
Japan	124.53	123.48
Mexico	3091.01	3063.00
Netherlands	1.6674	1.6000
South Korea	785.95	784.40
Switzerland	1.2994	1.2870
Taiwan	25.04	24.94
U.K.*	1.7475	1.9465

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/85
CHEM TRADE-WEIGHTED DOLLAR (9/18/92) (Adjusted for Inflation)	+5.4%	-18.1%

cant impediment to recovery. The real Federal funds rate stood at nearly five percentage points at the trough of the 1981-82 downturn, yet the economy was soon to embark on the longest peacetime expansion in history.

Pushing On A String

With M1 money supply growth running in the double-digits, the banking system awash with nonborrowed reserves and short-term interest rates plumbing ever-lower depths, the Federal Reserve is rapidly approaching the point at which it will find itself "pushing on a string"—when, despite its best efforts, monetary policy will have done all it can do to jump-start the economy. As a consequence, the critics' gaze will of necessity shift from the presumed policy shortcomings of the Fed to the true culprits behind today's business lethargy. Although the list is lengthy, they include sharp reductions in defense-related procurement, the erosion of corporate profitability, the Tax Act of 1986, which sapped the muscle of commercial construction and the hefty tax increases which accompanied the Deficit Reduction Act of 1990. Until these obstacles are either overcome, or their influence wanes, the effectiveness of even the best-intentioned, and well-executed monetary initiatives will be blunted, and subpar growth will persist.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	9/16/92	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	290.365	+ 1.638	+23.315
Loans to Depository Inst.	426	+ .212	- .436
Float	1.039	+ .748	+ .414
Total Reserve Bank Credit	323.656	+ 2.864	+23.783
Treasury Deposits with Federal Reserve Banks	6.284	+ .361	- 2.037
Currency in Circulation	320.003	+ .546	+25.023
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	291.497	- 2.935	+39.848
Member Bank Reserves:	9/16/92		
Total Reserves Held	51.427	+ 1.897	- .751
Excess (Deficiency)	.681	- .381	- .051
Net Free Reserves	.361	- .443	- .039
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (9/7/92)	983.3	+ 9.5	+ 12.5
M2 (9/7/92)	3,477.3	+ 0.5	+ 1.7
M3 (9/7/92)	4,172.8	+ 0.1	+ 0.3
Domestic Nonfinancial Debt (1st Q'92)	11,304.3	+ 3.9	+ 4.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/4/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	2.89%	2.91%	3.02%
* Federal Agencies	3.05	3.05	3.20
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.39	4.55	4.62
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.10	3.15	3.35

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.10%	Oct.	3.04%
15- 29 days	3.10	Nov.	3.01
30- 59 days	3.08	Dec.	3.01
60- 89 days	3.05	Jan.	3.05
90-179 days	3.00	Feb.	3.03
180-239 days	3.05	Mar.	3.03
240-270 days	3.08		

‡ Industrial Paper–Prime			
30- 89 days	3.10%	†Federal Funds	
90-120 days	3.10	Effective Rate	3.00%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	2nd Q'92	$ 5,899	$ 5,840	$ 5,658
Gross Domestic Product (1987 Dollars)*	2nd Q'92	$ 4,891	$ 4,874	$ 4,817
Percent Change, Annual Rate	2nd Q'92	1.4	2.9	1.7
Change in Consumer Prices*	Aug '92n	3.6%	1.2%	3.6%
Change in CHEM Cost of Living Index*	Aug '92n	6.0%	1.2%	4.8%
Change in Producer Prices*	Aug '92n	1.2%	1.2%	2.4%
Civilian Employment (Thousands of Persons) †	Aug '92	117,737	117,772	116,484
Unemployment as % of Civilian Labor Force †	Aug '92	7.6%	7.7%	6.8%
Personal Income*	Jul '92	$ 5,050	$ 5,039	$ 4,828
Leading Indicators Composite Index (1967=100) †	Jul '92	149.6	149.5	145.6
Industrial Production Index (1977=100) †	Aug '92n	108.6	109.2r	108.0
Net Change in Consumer Installment Credit †	Jul '92n	- $ 1.12	- $ 0.28r	- $ 1.29
U.S. Merchandise Trade Balance †	Jul '92n	- $ 7.82	- $ 6.73r	- $ 5.63
Plant and Equipment Expenditures*	4th Q'92n	$ 562.4(a)	$ 565.2(a)r	$ 528.9
Private Housing Starts (Thousands of Units)*	Jul '92	1,119	1,151	1,053
New Construction Expenditures*	Jul '92	$ 422.0	$ 424.4	$ 397.0
Total Business Inventories †	Jul '92n	$ 832.9	$ 831.9r	$ 819.9r
Total Business Sales †	Jul '92n	$ 558.5	$ 554.4r	$ 538.9r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

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Analysis of Business Trends Plus Selected Financial Indicators

Economics Department 44/270

Fractured Harmony

Despite the best efforts of European governments to forge an unprecedented degree of economic and monetary union by the end of this decade, the pronounced turbulence buffeting the Exchange Rate Mechanism (ERM) of the European Monetary System underscores the difficulty of achieving such a visionary venture when business conditions, and appropriate policy remedies diverge across national frontiers. For notwithstanding the reaffirmation of commitments to European unity by a broad spectrum of Europe's political leadership, the fact is that the fracturing of intra-European exchange rate harmony stems from the deteriorating economic position and prospects of several of the principal European economies.

Because of this, worried investors fear that the strict economic discipline which is part and parcel of the runup to monetary union will be the first thing jettisoned. The doubters won a round when such economically-pinched European Community members as the United Kingdom and Italy decided they could no longer subordinate domestic policy interests to the pursuit of such pan-European objectives as budget discipline and monetary restraint. Yet, while the odds favoring European unity may have lengthened, they are by no means dashed. Paradoxically, the unity drive among the stronger economies is alive and well, and may have even gotten a boost from the current turmoil.

Perhaps the principal contributor to Europe's autumn of discontent is the persistence of a tight-fisted monetary policy in Germany, which has blanketed not only that country, but the rest of the European Community as well, with a punishingly lofty level of short-term interest rates. Stressing repeatedly its discomfort with the prevailing rate of inflation, a torrid pace of money supply growth and a ballooning public sector deficit, the German central bank has unflinchingly pursued a policy designed to rein in domestic price pressures and set the stage for Germany itself to satisfy the strict economic prerequisites required for full participation in economic and monetary union.

The good news is that the Bundesbank's efforts have achieved a fair degree of success. Although money and credit growth still hover well above desired levels, significant progress has been made in dampening price pressures. Whereas the inflation rate had appeared poised to vault above the five percent level as recently as six months ago, and a nationwide round of wage negotiations threatened to provide even more fuel to the price fires, the steadfastness of the central bank ensured that neither came to pass. The widely-feared spring wage round passed with more of a pop than a bang and an accelerating rate of inflation suddenly lost its gusto, and has since retreated toward the 3½ percent neighborhood. To be sure, the German economy has slowed to a crawl in the wake of repeated rounds of monetary restraint—contracting in four of the past five quarters—but this is apparently viewed as an acceptable consequence of the efforts to achieve price stability.

Litmus Tests

While passing its own self-imposed, inflation-fighting litmus test at home, the bad news is that the Bundesbank was arguably failing the same test abroad. According to the critics, by relentlessly pursuing its domestic agenda, the German central bank was neglecting its pan-European responsibilities by inadvertently locking the rest of the continent into a prolonged period of economic stagnation (Financial Digest—July 27, 1992). And, herein lies the rub—in the form of not only the seeds of instability within the foreign exchange markets but also the groundswell of doubts surrounding the staying power of the unity-forging Maastricht Treaty.

Nowhere was the bite of Germany's monetary policy harsher than in the United Kingdom and, not coincidentally, nowhere was it more resented. Although finding itself in the midst of its lengthiest recession since the 1930s, UK policymakers were unable to unilaterally relax monetary policy and still keep sterling within the confines of its permitted ERM band. Equally rankling was the fact that while Germany is experiencing an inflation problem, the United Kingdom wasn't; it had trimmed the inflation rate from a lofty 11 percent perch in mid-1990 to nearly 3½ percent by the middle of this year.

Nor were rumblings of discontent confined to the United Kingdom. In early June, voters in Denmark threw a monkey wrench in the unity

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drive by narrowly rejecting the strictures of the Maastricht Treaty, viewing unfavorably the prospect of a single European currency and one, presumably German-dominated, central bank. Although the Treaty escaped the same fate at the hands of the French electorate, it was approved by the most minute of margins, as voters carefully weighed the promised benefits of a united Europe against the stark reality of a sagging economy and a double-digit unemployment rate. And, in Italy, no one doubts that meeting the economic criteria for participation in monetary union will be difficult, requiring unaccustomed budget discipline, painful public spending cuts and prolonged monetary restraint.

Cherry Picking

Sensing the stresses building around the edges of the European Community, and seemingly concluding that the serpentine road to unity was just too difficult for some countries to bear, the investment community ran for the exits, largely from the securities and currencies of those countries where the likelihood of Maastricht-imposed inflation and public policy discipline seemed dimmest. In short order, the currencies of the United Kingdom, Italy and Spain were driven sharply lower—so low, in fact, that the United Kingdom and Italy threw in the towel and withdrew from Europe's exchange rate arrangements altogether.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (9/16/92)	133,208	- 1,608	- 47,520
New York City (9/23/92)	24,516	- 949	- 5,248
Commercial Paper (9/23/92)	551,282	+ 1,026	+ 18,405

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (9/16/92)	277,052	+ 2,597	- 23,224
New York City (9/23/92)	46,809	- 986	- 6,435

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (9/16/92)	993,528	+10,057	- 24,213
New York City (9/23/92)	156,614	- 4,585	- 14,048

Financial Markets

	Friday 10/2/92	Change Since	
		Week Ago	Year Ago
U.S. Governments, 2 p.m. Yields:			
90-Day Bills†	2.68%	- .21	- 2.46
180-Day Bills†	2.87	- .06	- 2.40
Longest Bills†	2.97	- .09	- 2.35
Recent issues:			
4s 9/30/94	3.68	- .12	
5½s 9/30/97	5.20	- .14	
6⅜s 8/31/02	6.23	- .18	
7½s 8/31/22	7.32	- .04	
Municipals:			
Bond Buyer—20 Bond Index* (10/1/92)	6.27%	- .06	- .37
Blue List Total ($ Million)	$1,169	- $286	- $ 124
30-Day Visible Supply ($ Million)	$8,574	+ $260	+$6,187
Total	$9,743	- $ 26	+$6,063
Corporates:			
Moody's Aa Composite (10/1/92)	8.16%	- .07	- .63
30-Day Visible Supply ($ Million)	$1,364	+ $395	+$1,089
Stocks: (Thursday)			
Dow-Jones Averages:			
Industrials	3,200.59	- 49.73	+238.83
Transportation	1,246.75	- 26.59	+ 58.41
Utilities	217.70	- 1.38	+ 5.07
65 Stocks	1,129.47	- 17.75	+ 67.32
N.Y.S.E. Composite Index	225.81	- 1.92	+ 15.59
N.Y.S.E. Avg. Daily Vol. for Week (000's)	198,699	+ 9,243	+35,597

*34% Taxable equivalent 9.50%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/2/92	Week Ago
Overnight	2.81%	3.06%
1 month	2.88	3.30
3 month	3.00	3.31
6 month	3.06	3.38
1 year	3.19	3.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/2/92)	Currency Per U.S. $	Week Ago
Belgium	29.19	30.46
Canada	1.2509	1.2435
France	4.7874	5.0102
Germany	1.4170	1.4775
Italy	1242.38	1247.00
Japan	119.67	120.77
Mexico	3107.00	3085.00
Netherlands	1.5955	1.6682
South Korea	800.00	800.00
Switzerland	1.2379	1.2997
Taiwan	24.91	25.03
U.K.*	1.7410	1.7050

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (10/2/92) (Adjusted for Inflation)	Change Since	
	Week Ago	2/27/85
	+1.1%	-17.5%

But while it may have been relatively easy for investors and speculators to "cherry pick" the soft spots in the ERM, this flare-up hardly buries either the drive toward European unity in general, or the ERM in particular. For one thing, despite the criticism leveled at Germany, the fact is that German inflation is past its peak and so, too, are German short-term interest rates. As interest rates recede, and growth prospects brighten, the genesis of today's turmoil, and cross-border "finger pointing" will fade. For another, as the acrimony fades, the realization will set in that, no matter how heatedly denied, a "two-speed" Europe does exist. This may actually be a plus. Convinced that the long-run benefits of economic union far outweigh the short-run costs, the stronger economies—largely the original six European Community members, minus Italy—might accelerate the unity process among themselves, providing a prosperous paragon which the weaker economies will seek to emulate as quickly as possible. And, finally, the asymmetry of the ERM will be corrected. Largely designed to combat inflation and prepare for monetary union by ensuring exchange rate stability, it will be made capable of calmly realigning itself when quicker growth conditions are required—presumably starting with more diligent member oversight.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	9/30/92	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	301.868	+ 9.643	+37.699
Loans to Depository Inst.	299	+ .081	- .045
Float	182	- .324	- .195
Total Reserve Bank Credit	335.338	+10.317	+39.203
Treasury Deposits with Federal Reserve Banks	21.297	+ 7.600	+12.899
Currency in Circulation	317.356	- .831	+23.774
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	283.556	+ 1.213	+33.857
Member Bank Reserves:	9/30/92		
Total Reserves Held	50.977	- .495	+ .812
Excess (Deficiency)	1.290	+ .538	+ .246
Net Free Reserves	1.031	+ .600	+ .329
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (9/21/92)	991.5	+ 13.0	+ 13.1
M2 (9/21/92)	3,479.6	+ 1.6	+ 1.9
M3 (9/21/92)	4,178.2	+ 1.3	+ 0.5
Domestic Nonfinancial Debt (1st Q'92)	11,304.3	+ 3.9	+ 4.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/2/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	2.63%	2.81%	2.89%
* Federal Agencies	2.85	2.95	3.10
* Municipal Notes–High Grade (34% Taxable Equivalent)	3.94	4.02	4.09
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	2.75	2.75	2.85

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.05%	Nov.	2.98%
15- 29 days	3.10	Dec.	3.02
30- 59 days	3.15	Jan.	3.00
60- 89 days	3.15	Feb.	2.99
90-179 days	3.25	Mar.	2.98
180-239 days	3.30	Apr.	2.98
240-270 days	3.30		

‡ Industrial Paper–Prime		†Federal Funds	
30- 89 days	2.95%		
90-120 days	3.00	Effective Rate	2.25%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	2nd Q'92	$ 5,902 r	$ 5,840	$ 5,658
Gross Domestic Product (1987 Dollars)*	2nd Q'92	$ 4,892 r	$ 4,874	$ 4,817
Percent Change, Annual Rate	2nd Q'92	1.5 r	2.9	1.7
Change in Consumer Prices*	Aug '92	3.6%	1.2%	3.6%
Change in CHEM Cost of Living Index*	Aug '92	6.0%	1.2%	4.8%
Change in Producer Prices*	Aug '92	1.2%	1.2%	2.4%
Civilian Employment (Thousands of Persons) †	Sep '92 n	117,701	117,737	117,089
Unemployment as % of Civilian Labor Force †	Sep '92 n	7.5%	7.6%	6.8%
Personal Income*	Aug '92 n	$ 5,027	$ 5,051 r	$ 4,848
Leading Indicators Composite Index (1967=100) †	Aug '92 n	149.4	149.7 r	145.6
Industrial Production Index (1977=100) †	Aug '92	108.6	109.2	108.0
Net Change in Consumer Installment Credit †	Jul '92	- $ 1.12	- $ 0.28	- $ 1.29
U.S. Merchandise Trade Balance †	Jul '92	- $ 7.82	- $ 6.73	- $ 5.63
Plant and Equipment Expenditures*	4th Q'92	$ 562.4 (a)	$ 565.2 (a)	$ 528.9
Private Housing Starts (Thousands of Units)*	Aug '92 n	1,237	1,120 r	1,053
New Construction Expenditures*	Aug '92 n	$ 424.0	$ 427.5 r	$ 404.8
Total Business Inventories †	Jul '92	$ 832.9	$ 831.9	$ 819.9
Total Business Sales †	Jul '92	$ 558.5	$ 554.4	$ 538.9

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

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**Financial
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Financial Digest

Volume XXIX, Number 21 Monday, October 19, 1992

Analysis of Business Trends Plus Selected Financial Indicators

October Surprise?

With the Presidential election campaign entering the home stretch, the debate surrounding the health of the economy is reaching a feverish pitch. For months, analysts have found themselves deeply divided over the economy's direction, scrutinizing each and every economic statistic for signs of either business lethargy or life. To make matters worse, by the time the analysts' uncertainty is filtered through the media prism, the impact on Main Street is an understandable dose of confusion, leavened with a fair degree of despondency. Yet, in spite of the prevailing folklore that a brutal recession is underway or the persistent influence of such "culprits" as anemic employment growth and a plunge in defense-related procurement, the fact is that the economy has defied the dour pundits and has actually been growing nonstop since the spring of last year. To be sure, the business pace has been more of a crawl than a sprint—bad news for the jobless, but good news for inflation and interest rates.

If there is to be a so-called "October surprise" in this election season, it might be the economy's better-than-expected performance in the third quarter. Although it was widely assumed that plunging consumer confidence and rising joblessness would decidedly deter household spending during the summer months, it didn't turn out that way. Bolstered by a brisk upturn in department store sales, retail sales advanced at a nearly 5½ percent annualized clip in the third quarter, far faster than the second quarter's minuscule 0.9 percent advance. What is more, the pickup in retail sales may be even more noteworthy than a superficial glance suggests, especially when you consider the relentless consumer shift away from higher-cost retailers and toward the discounters that is now underway. While this has trimmed the level of retail sales when measured in today's dollars, and misleadingly raised the specter of a consumer-led dive, consumption spending was far from a drag on the economy in the third quarter; including services spending, and adjusting for inflation, it probably added better than two percentage points alone to gross domestic product growth in the quarter just past.

The quickening of third quarter consumer spending would have been even more pronounced if a larger proportion of the droves of window shoppers visiting automobile showrooms actually purchased new passenger cars. But while the languishing of automobile sales in recent months is widely trumpeted as a footprint of economic malaise, it is also reflective of something else altogether, namely, the growing popularity of light trucks such as mini-vans and sport-utility vehicles. For just as the trend toward retailing discounters is shaving the reported dollar value of retail sales, the rapid growth of the light truck market may be doing the same thing to passenger car sales. Truck sales now account for a record 40 percent of the domestic motor vehicle market and, while passenger car sales have been standing still, light truck sales have leaped nearly 30 percent when compared with year-earlier levels.

Ball and Chain

While household spending may have blunted economywide weakness elsewhere in the third quarter, there is no assurance that this behavior will be repeated. With defense industries at the receiving end of a double-digit downturn in procurement, construction firms struggling to secure new work and countless financial institutions striving to cut costs, employment prospects have dimmed, and job growth in both the goods- and service-producing industries has been anemic—the understandable underpinnings of widespread unease. Over the past year, in fact, only 116,000 payroll jobs have been created and, because of this, the nationwide payroll count still stands nearly two million persons below the peak employment level reached in mid-1990. By most measures, the American job machine seems to be misfiring acutely when compared with prior experience; in the preceding eight recoveries from postwar recessions, it has taken an average of just ten months to recapture all of the jobs lost during the business downturn.

The reverberations of what appears to be a bleak job picture range from tumbling confidence levels to gridlock in the home trade-up market to slow absorption of vacant commercial real estate. But while this ball and chain looms large, it is not a sure bet either that this is an insurmountable obstacle to future growth. For one thing, while the payroll count looks grim, and the duration of joblessness is lengthening, a large number of people have turned to self-employment. The household survey of

Economics Department 44/270

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labor market trends, which includes these people, paints a far brighter picture; by this measure, adult employment currently stands at better than 112 million persons, a tiny 0.3 percent below the all-time high reached in July of this year. For another, while today's 7½ percent jobless rate is nearly two percentage points higher than two years ago, it has remained at or above this level for only three months. This pales by comparison with the job picture ten years ago when, with the economy poised to embark on its longest peacetime expansion, the jobless rate was locked above 7½ percent for 32 straight months. And, finally, the burden of unemployment is hardly shared equally. Although such industrial states as California, Michigan and New York are posting jobless rates well above the national average, a 35-state majority—largely clustered in the nation's midsection—possess unemployment rates below the national average.

Two Remedies

Although the past quarter may have been better than expected, and the rebuilding of storm-ravaged South Florida should provide a solid boost to the economy in the months ahead, it

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/30/92)	126,833	- 5,066	- 50,473
New York City (10/7/92)	25,370	+ 3,553	- 4,445
Commercial Paper (10/7/92)	552,194	+ 2,450	+ 21,548

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/30/92)	278,444	+ 2,747	- 21,564
New York City (10/7/92)	46,840	+ 281	- 6,952

Total Loans and Leases Gross Adjuste

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/30/92)	991,952	+ 6,227	- 23,033
New York City (10/7/92)	156,223	- 1,755	- 10,838

Financial Markets

	Friday 10/16/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, 2 p.m. Yields:			
90-Day Bills†	2.95%	+ .06	- 2.21
180-Day Bills†	3.10	+ .05	- 2.16
Longest Bills†	3.29	+ .12	- 2.08
Recent Issues:			
4s 9/30/94	4.01	+ .05	
5½s 9/30/97	5.44	- .06	
6s 10/15/99	6.59	+ .08	
7¼s 8/15/22	7.53	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (10/15/92)	6.34%	+ .05	- .33
Blue List Total ($ Million)	$1,609	+ $355	+$ 509
30-Day Visible Supply ($ Million)	$7,053	- $767	+$3,241
Total	$8,662	- $412	+$3,750
Corporates:			
Moody's Aa Composite (10/15/92)	8.31%	+ .08	- .54
30-Day Visible Supply ($ Million)	$2,375	+ $391	+$2,225
Stocks: (Thursday)			
Dow-Jones Averages:			
Industrials	3,174.41	+ 37.83	+ 97.26
Transportation	1,283.21	+ 63.65	- 3.79
Utilities	218.14	+ 3.38	+ 3.38
65 Stocks	1,134.25	+ 26.78	+ 22.41
N.Y.S.E. Composite Index	226.44	+ 4.33	+ 10.29
N.Y.S.E. Avg. Daily Vol. for Week (000's)	218,077	+ 7,606	+22,487

*34% Taxable equivalent 9.61%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/16/92	Week Ago
Overnight	3.06%	3.06%
1 month	3.13	3.19
3 month	3.31	3.31
6 month	3.31	3.31
1 year	3.56	3.50

FOREIGN EXCHANGE SPOT RATES New York Opening (10/16/92)	Currency Per U.S. $	Week Ago
Belgium	30.06	30.40
Canada	1.2491	1.2495
France	4.9738	5.0053
Germany	1.4641	1.4754
Italy	1285.50	1307.64
Japan	120.45	121.45
Mexico	3114.00	3109.01
Netherlands	1.6494	1.6684
South Korea	783.60	786.50
Switzerland	1.3066	1.3052
Taiwan	24.98	25.00
U.K.*	1.6795	1.6870

*U.S. $ per U.K. pound

	Change Since Week Ago	Change Since 2/27/86
CHEM TRADE-WEIGHTED DOLLAR (10/16/92) (Adjusted for Inflation)	+0.2%	-18.9%

still seems that a convincing business revival must await a brightening of employment prospects in all areas. Arguably, the seeds for a deep-rooted business upturn are in place—inflation is dormant, short-term interest rates are touching 30-year lows, housing affordability has been greatly enhanced and inventories are lean virtually across the board—but these pluses have existed for months, and none has unlocked the door to quicker growth. For that to happen, there appear to be two remedies.

First, corporate America could complete the repair of its badly worn balance sheet, taper its cost-cutting zeal and again switch on the idling jobs machine. Although the process has commenced (Financial Digest—August 10, 1992), its completion is months, if not years, away. And, second, with monetary policy having done almost all it can to stimulate the economy, the time may be ripe for a fiscal policy assist, despite the short-run Federal deficit-widening implications. With impatience rising, the fiscal boost appears to be the evermore attractive, and likely, course. While this may not play well to the skeptics on Wall Street, it could give a much needed lift to the restless on Main Street. ▨

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	10/14/92	Week Ago	Year Ago
U.S. Gov'ts and Agencies			
Owned Outright & RPs	289.648	+ 2.565	+26.502
Loans to Depository Inst.	.185	+ .001	- .135
Float	.997	+ .671	+ .395
Total Reserve Bank Credit	323.094	+ 3.538	+27.154
Treasury Deposits with			
Federal Reserve Banks	4.555	- .944	+ .069
Currency in Circulation	321.127	+ 2.289	+24.543
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	287.507	+ 3.302	+39.823
Member Bank Reserves:	10/14/92		
Total Reserves Held	52.782	+ 1.788	+ .859
Excess (Deficiency)	1.115	- .090	+ .099
Net Free Reserves	.930	- .016	+ .197
		‡ % Change Since	
Monetary Aggregates †		3 Months Ago*	Year Ago
M1 (10/5/92)	1,000.6	+ 16.7	+ 13.6
M2 (10/5/92)	3,485.5	+ 2.8	+ 2.0
M3 (10/5/92)	4,156.9	+ 2.2	+ 0.5
Domestic Nonfinancial Debt (2nd Q'92)	11,459.8	+ 4.6	+ 4.6

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/16/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	2.90%	3.02%	3.16%
* Federal Agencies	3.00	3.15	3.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	3.94	4.09	4.24
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.00	3.00	3.25

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	3.15%	Nov.	3.05%
15- 29 days	3.18	Dec.	3.05
30- 59 days	3.25	Jan.	3.05
60- 89 days	3.25	Feb.	3.18
90-179 days	3.40	Mar.	3.17
180-239 days	3.40	Apr.	3.17
240-270 days	3.40		

‡ Industrial Paper–Prime			
30- 89 days	3.20%	†Federal Funds	
90-120 days	3.25	Effective Rate	2.88%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	2nd Q'92	$ 5,902	$ 5,840	$ 5,658
Gross Domestic Product (1987 Dollars)*	2nd Q'92	$ 4,892	$ 4,874	$ 4,817
Percent Change, Annual Rate	2nd Q'92	1.5	2.9	1.7
Change in Consumer Prices*	Sep '92 n	2.4%	3.6%	4.8%
Change in CHEM Cost of Living Index*	Sep '92 n	4.8%	6.0%	6.0%
Change in Producer Prices*	Sep '92 n	3.6%	1.2%	2.4%
Civilian Employment (Thousands of Persons) †	Sep '92	117,701	117,737	117,089
Unemployment as % of Civilian Labor Force †	Sep '92	7.5%	7.6%	6.8%
Personal Income*	Aug '92	$ 5,027	$ 5,051	$ 4,848
Leading Indicators Composite Index (1967=100) †	Aug '92	149.4	149.7	145.6
Industrial Production Index (1977=100) †	Sep '92 n	108.6	108.9r	108.4
Net Change in Consumer Installment Credit †	Aug '92 n	- $ 0.96	- $ 1.10r	- $ 1.51
U.S. Merchandise Trade Balance †	Aug '92 n	- $ 9.00	- $ 7.28r	- $ 6.61
Plant and Equipment Expenditures*	4th Q'92	$ 562.4 (a)	$ 565.2 (a)	$ 528.9
Private Housing Starts (Thousands of Units)*	Aug '92	1,237	1,120	1,053
New Construction Expenditures*	Aug '92	$ 424.0	$ 427.5	$ 404.8
Total Business Inventories †	Aug '92 n	$ 838.1	$ 835.4r	$ 819.7
Total Business Sales †	Aug '92 n	$ 552.8	$ 559.7r	$ 536.8r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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